

CIMB Group Holdings (CIMB MK)

2Q22 results within expectations

Upgrade to BUY

We raise FY22-24E net profit forecasts by 3-10% to factor in lower credit cost assumptions. Our FY22E ROE of 9% is nevertheless still at the lower end of management's target of 9-10%. Prospects have improved and we expect CIMB to be able to achieve a higher ROE of 10.4% in FY23. Our TP is correspondingly raised to MYR6.20 from MYR5.70, pegging on a higher FY23E PBV of 1x (FY23E PBV of 0.9x, ROE: 9.8% previously). Upgrade to BUY, 4.8% FY22E dividend yield is decent.

Within expectations

CIMB's 2Q22 core net profit of MYR1.28b (+0% YoY, -13% QoQ) contributed to 1H22 core net profit of MYR2.75b (+5% YoY). The results were within our expectations (52% of full year), but above consensus (54%), the main variance likely being lower-than-expected provisions. Loan growth picked up momentum to 5.9% YoY while NIM improved 2bps QoQ. The primary drag was a 46% YoY decline in NOII in 1H22 but this was offset by a 46% YoY decline in impairment allowances.

Revisions to guidance

Against its earlier guidance, management now guides for FY22 loan growth of 6-7% from 5.6%, NIM expansion of about 5bps (unchanged), cost/income ratio of <48% (<49% before), and credit cost of 50-60bps versus 60-70bps previously.

Earnings raised

Our forecasts for FY22/23/24E are raised by 3%/7%/10% respectively on lower, but still elevated, credit cost assumptions of 60/50/50bps for FY22/23/24E respectively. Our FY22E ROE of 9% is at the lower end of management's guidance of 9-10%. A higher interim DPS of 13sen (10.4sen in 1H21) has been declared, which is a 50% payout.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	17,096	18,287	19,603	20,636	21,391
Pre-provision profit	8,119	8,868	10,344	11,040	11,437
Core net profit	1,430	4,648	5,458	6,692	7,243
Core EPS (MYR)	0.14	0.46	0.54	0.67	0.72
Core EPS growth (%)	(70.6)	221.8	17.4	22.6	8.2
Net DPS (MYR)	0.05	0.23	0.26	0.31	0.32
Core P/E (x)	29.8	11.8	9.9	8.0	7.4
P/BV (x)	0.8	0.9	0.9	0.9	0.9
Net dividend yield (%)	1.1	4.2	4.8	5.8	6.0
Book value (MYR)	5.64	5.76	5.91	6.04	6.18
ROAE (%)	2.5	8.1	9.0	10.4	10.7
ROAA (%)	0.2	0.8	0.9	1.0	1.0
Consensus net profit	-	-	4,955	6,187	6,761
MKE vs. Consensus (%)	-	-	10.1	8.2	7.1

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BUY

[Prior:HOLD]

Share Price	MYR 5.37
12m Price Target	MYR 6.20 (+15%)
Previous Price Target	MYR 5.70

Company Description

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

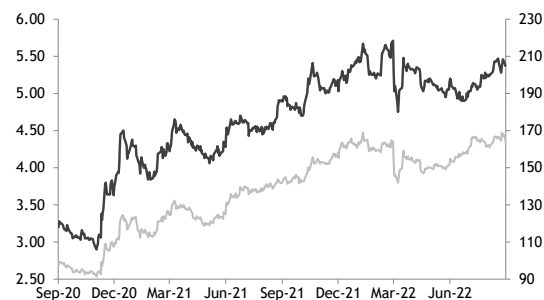
Statistics

52w high/low (MYR)	5.71/4.70
3m avg turnover (USDm)	11.3
Free float (%)	59.3
Issued shares (m)	10,474
Market capitalisation	MYR56.2B USD12.6B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	24.8%
Employees Provident Fund	15.3%
Permodalan Nasional Bhd.	10.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	6	9
Relative to index (%)	2	9	17

Source: FactSet

Fig 1: CIMB - Results summary

FYE Dec (MYR m)	Quarterly results					Cumulative		
	2Q22	2Q21	% YoY	1Q22	% QoQ	6M22	6M21	% YoY
Interest income	4,253.1	4,029.0	5.6	3,984.7	6.7	8,237.9	8,064.3	2.2
Interest Expense	(1,431.0)	(1,271.8)	12.5	(1,264.5)	13.2	(2,695.5)	(2,604.9)	3.5
Net Interest income	2,822.1	2,757.2	2.4	2,720.2	3.7	5,542.4	5,459.4	1.5
Islamic banking income	954.4	883.3	8.0	947.1	0.8	1,901.5	1,781.6	6.7
Non-interest income	1,107.8	981.2	12.9	1,069.0	3.6	2,176.9	3,337.4	(34.8)
Operating income	4,884.4	4,621.8	5.7	4,736.4	3.1	9,620.7	10,578.4	(9.1)
Operating expenses	(2,299.5)	(2,402.9)	(4.3)	(2,277.5)	1.0	(4,577.1)	(4,741.2)	(3.5)
Operating Profit	2,584.8	2,218.9	16.5	2,458.8	5.1	5,043.7	5,837.2	(13.6)
Loan impairment allowance	(455.4)	(652.2)	(30.2)	(287.1)	58.6	(742.6)	(1,367.9)	(45.7)
Other provisions	(26.1)	(11.9)	118.4	(136.9)	>100	(163.0)	(52.0)	213.4
Associates & JVs	1.5	22.9	(93.3)	12.9	(88.1)	14.5	58.2	(75.1)
Pretax profit	2,104.8	1,577.7	33.4	2,047.7	2.8	4,152.5	4,475.4	(7.2)
Taxation	(781.0)	(466.5)	67.4	(580.3)	34.6	(1,361.3)	(889.3)	53.1
Minority interest	(43.1)	(27.1)	59.4	(40.4)	6.7	(83.5)	(44.7)	86.8
Net profit	1,280.7	1,084.2	18.1	1,427.0	(10.3)	2,707.7	3,541.4	(23.5)
Recurring net profit	1,280.7	1,280.2	0.0	1,472.0	(13.0)	2,752.7	2,616.2	5.2
EPS (sen) (basic)	12.3	10.8	13.9	14.0	(12.1)	26.3	35.6	(26.2)
DPS (sen)	13.0	10.4	25.0	-	-	13.0	10.4	25.0
Cost-to-income (%)	47.1	52.0	(4.9)	48.1	(1.0)	47.6	44.8	2.8
Tax rate (%)	37.1	29.6	7.5	28.3	8.8	32.8	19.9	12.9
Balance sheet (MYR m)	Jun 22	Jun 21	% YoY	Mar 22	% QoQ	Jun 22	Dec 21	YTD chg
Customer loans (gross)	394,307	369,173	6.8	384,721	2.5	394,307	378,033	4.3
Customer loans (net)	380,282	356,200	6.8	371,140	2.5	380,282	364,688	4.3
Deposits from customers	432,997	413,806	4.6	432,577	0.1	432,997	432,845	0.0
			ppt chg		ppt chg			ppt chg
LDR (%)	91.1	89.2	1.9	88.9	2.1	91.1	87.3	3.7
Gross impaired loans (%)	13,983	12,693	10.2	13,243	5.6	13,983	13,293	5.2
Gross impaired loans ratio (%)	3.5	3.4	0.1	3.4	0.1	3.5	3.5	0.0

Sources: Company Announcement

Key highlights

Repayment assistance: As a group, the percentage of loans under Payment Repayment Assistance (PRA) declined further to 3% of total loans end-July 2022 from 5% end-Apr 2022. For Malaysia, the percentage declined to 3% as well, from 5% of total loans end-Apr 2022.

Loan growth: Stripping out FX effects, group loans expanded a faster 5.9% with faster growth of 5.9% in Malaysia, 9.4% in Indonesia and 6.6% in Singapore, offset by slower growth of 1.2% in Thailand. Management had earlier guided for loan growth of 5-6% in FY22.

Deposit growth: Group deposit growth was a slower 5.2% (excluding forex), with CASA expanding at a faster pace of 7.3%. The CASA ratio was marginally lower at 42.3% end-June 2022 from 43.5% end-Mar 2022. Deposits rose 2.6% in Malaysia, 6.4% in Indonesia, 12.9% in Thailand and 14.9% in Singapore.

Net interest margin (NIM): NIM improved 2bps QoQ to 2.47% in 2Q22. NIM was relatively stable QoQ in Malaysia but improved in Indonesia. Management maintains guidance for a 5bps NIM expansion in FY22. Every 25ps hike in the OPR raises earnings by MYR80m-90m, which is about 2bps.

Non-interest income (NOII): Bucking industry trends, NOII rose 13% YoY in 2Q22, with improved treasury income out of Singapore and Indonesia.

Operating expenses: Operating expenses on a BAU basis were stable, down 4% YoY in both 2Q22 and 1H22. BAU expenses in 1H22 rose a marginal 1.7% YoY but on the back of positive JAWS, the group's cost/income ratio declined to 46% in 2Q22 from 47% in 1Q22.

Credit cost: Asset quality was stable in 2Q22 with a marginally higher GIL ratio of 3.5% in 2Q22 from 3.4% in 1Q22. Credit cost was nevertheless higher at 49bps in 2Q22 from 34bps in 1Q22. Loan loss coverage was 99.6% end-June 2022. Overall, however, management believes that provisions are adequate and now guides for a lower credit cost of 50-60bps for FY22 versus 60-70bps previously.

Capital ratios: The group's CET1 ratio was comfortable at 14.1% end-Jun 2022.

Dividends. Management has declared an interim DPS of 13sen which is a 50% payout. The electable portion has been reduced to 80% from 100% and thus this consists of a cash portion of 2.6sen and an electable portion of 10.4sen.

Risk statement

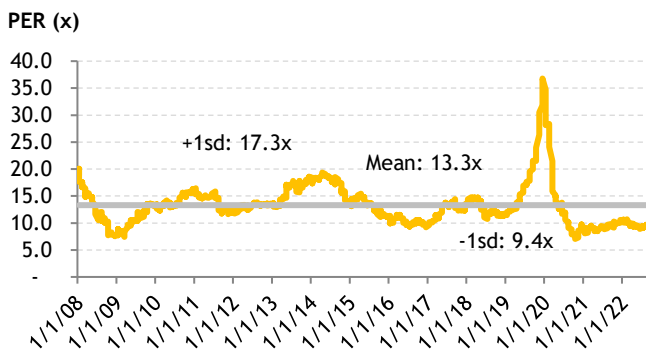
As the second largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group’s operating performance. Moreover, with regional exposures in key markets such as Indonesia, Thailand and Singapore, economic volatility 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 2: CIMB Group’s foreign shareholding



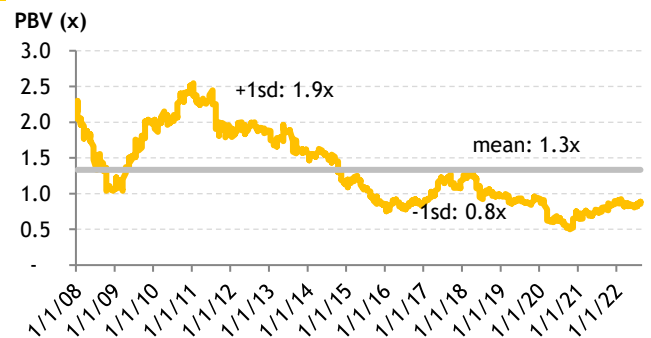
Source: Company

Fig 3: CIMB Group: One-year forward rolling PER (x)



Source: Bloomberg data, Maybank IBG Research

Fig 4: CIMB Group: One-year forward rolling P/BV



Source: Bloomberg data, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	29.8	11.8	9.9	8.0	7.4
Core FD P/E (x)	35.7	12.7	9.9	8.0	7.4
P/BV (x)	0.8	0.9	0.9	0.9	0.9
P/NTA (x)	0.9	1.1	1.0	1.0	1.0
Net dividend yield (%)	1.1	4.2	4.8	5.8	6.0
INCOME STATEMENT (MYR m)					
Interest income	17,741.7	16,095.7	20,873.2	21,865.9	22,708.3
Interest expense	(7,522.7)	(5,221.3)	(9,333.3)	(9,801.0)	(10,431.8)
Net interest income	10,219.0	10,874.4	11,539.8	12,064.9	12,276.5
Islamic banking income	2,937.5	3,533.5	3,816.2	4,121.5	4,451.2
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	1,748.8	2,067.3	2,170.6	2,279.2	2,393.1
Other income	2,190.4	1,812.1	2,076.1	2,170.8	2,270.5
Total non-interest income	3,939.2	3,879.3	4,246.8	4,449.9	4,663.6
Operating income	17,095.7	18,287.2	19,602.8	20,636.3	21,391.2
Staff costs	(5,144.1)	(5,428.4)	(5,591.3)	(5,814.9)	(6,047.5)
Other operating expenses	(3,832.7)	(3,990.5)	(3,667.8)	(3,781.9)	(3,907.2)
Operating expenses	(8,976.8)	(9,418.9)	(9,259.0)	(9,596.8)	(9,954.7)
Pre-provision profit	8,118.9	8,868.3	10,343.7	11,039.5	11,436.6
Loan impairment allowances	(5,342.2)	(2,613.6)	(2,329.3)	(2,036.7)	(1,701.7)
Other allowances	(1,456.2)	(1,758.9)	(163.0)	(100.0)	(100.0)
Associates & JV income	116.5	68.0	74.7	82.1	90.1
Pretax profit	1,437.0	4,563.8	7,926.1	8,984.9	9,725.0
Income tax	(383.8)	(1,396.9)	(2,357.0)	(2,156.4)	(2,334.0)
Minorities	47.9	(97.3)	(111.4)	(136.6)	(147.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,101.1	3,069.6	5,457.8	6,691.9	7,243.2
Core net profit	1,429.9	4,648.2	5,457.8	6,691.9	7,243.2
BALANCE SHEET (MYR m)					
Cash & deposits with banks	43,125.9	50,283.2	52,797.4	55,437.3	58,209.1
Sec. under resale agreements	6,832.9	5,885.5	6,474.0	7,121.5	7,833.6
Derivatives financial assets	16,008.4	11,989.6	12,589.1	13,218.5	13,879.5
Dealing securities	42,713.1	40,279.2	40,682.0	41,088.9	41,499.7
Available-for-sale securities	104,162.8	116,448.9	122,271.4	128,384.9	134,804.2
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	353,916.0	364,684.8	387,795.7	405,189.1	422,986.7
Central bank deposits	4,411.6	4,676.2	10,923.0	11,410.2	11,908.0
Investment in associates/JVs	2,496.5	2,952.1	2,956.2	2,960.6	2,965.2
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	3,076.6	2,748.6	2,886.0	3,030.3	3,181.8
Intangible assets	9,745.0	8,301.6	8,301.6	8,301.6	8,301.6
Other assets	15,866.0	13,657.3	13,882.4	14,112.1	14,346.3
Total assets	602,354.9	621,907.1	661,558.8	690,254.8	719,915.6
Deposits from customers	405,729.5	432,845.3	440,676.9	460,442.2	480,666.7
Deposits from banks & FIs	31,791.2	30,701.9	32,237.0	33,848.8	35,541.3
Derivatives financial instruments	16,340.8	10,895.5	11,440.2	12,012.2	12,612.9
Subordinated debt	12,808.5	10,128.6	10,128.6	10,128.6	10,128.6
Other securities in issue	12,464.0	13,379.0	13,379.0	13,379.0	13,379.0
Other borrowings	38,552.5	37,292.9	40,373.5	43,749.2	47,449.2
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	27,494.2	26,555.2	49,600.5	49,489.2	49,163.0
Total liabilities	545,180.8	561,798.3	597,835.7	623,049.2	648,940.6
Share capital	25,843.8	27,099.7	27,099.7	27,099.7	27,099.7
Reserves	30,081.8	31,763.6	35,266.5	38,612.5	42,234.1
Shareholders' funds	55,925.6	58,863.3	62,366.2	65,712.2	69,333.8
Preference shares	200.0	200.0	200.0	200.0	200.0
Minority interest	1,048.5	1,045.5	1,156.9	1,293.4	1,441.3
Total equity	57,174.1	60,108.7	63,723.1	67,205.6	70,975.0
Total liabilities & equity	602,354.9	621,907.1	661,558.8	690,254.8	719,915.6

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	1.3	6.4	6.1	4.6	1.8
Non-interest income	(7.1)	(1.5)	9.5	4.8	4.8
Operating expenses	(9.1)	4.9	(1.7)	3.6	3.7
Pre-provision profit	8.4	9.2	16.6	6.7	3.6
Core net profit	(70.0)	225.1	17.4	22.6	8.2
Gross loans	(1.0)	3.3	5.4	4.5	4.4
Customer deposits	2.5	6.7	1.8	4.5	4.4
Total assets	5.1	3.2	6.4	4.3	4.3
Profitability (%)					
Non-int. income/Total income	23.0	21.2	21.7	21.6	21.8
Average lending yields	3.85	3.48	4.16	4.17	4.17
Average cost of funds	1.81	1.23	2.13	2.14	2.17
Net interest margin	2.32	2.45	2.48	2.49	2.46
Cost/income	52.5	51.5	47.2	46.5	46.5
Liquidity (%)					
Loans/customer deposits	87.2	84.3	88.0	88.0	88.0
Asset quality (%)					
Net NPL	1.7	1.5	1.7	1.7	1.7
Gross NPL	3.6	3.5	3.2	3.2	3.2
(SP+GP)/average gross loans	1.5	0.7	0.6	0.5	0.4
Loan loss coverage	91.6	100.2	83.7	83.7	83.7
Capital adequacy (%)					
CET1	13.2	14.2	14.3	14.6	14.9
Tier 1 capital	14.5	15.1	15.1	15.4	15.7
Risk-weighted capital	17.5	18.0	17.9	18.0	18.2
Returns (%)					
ROAE	2.5	8.1	9.0	10.4	10.7
ROAA	0.2	0.8	0.9	1.0	1.0
Shareholders equity/assets	9.3	9.5	9.4	9.5	9.6

Source: Company; Maybank IBG Research

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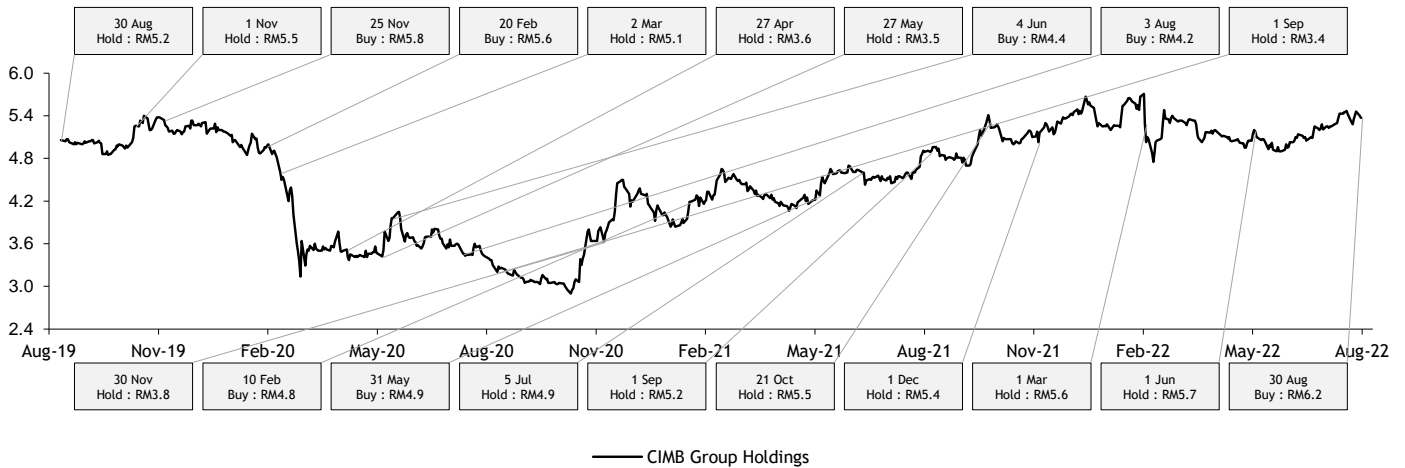
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