

# CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

## Niaga 2QFY23: Another Strong Quarter

### KEY INVESTMENT HIGHLIGHTS

- **Purpose:** CIMB Niaga results and briefing
- **Management's tone:** Optimistic, with +ve guidance revisions
- **Core themes:** (a) Potential tech spend increases in subsequent quarters, (b) NIM to be managed by deposit rebalancing, (c) High cost of credit due to MEF refresh
- **Forecasts unchanged**
- **Maintain BUY | Unchanged TP of RM6.39 | based on an unchanged FY24F P/BV of 0.94x**

**Verdict:** Risk-reward still skewed toward +ve, despite recent positive share repricing

<b>Yays</b>	<ol style="list-style-type: none"> <li>1. NOII uplift remains promising.</li> <li>2. CIMB Niaga offers exposure to lucrative Indonesian market.</li> <li>3. Asset quality seems stable.</li> </ol>
<b>Nays</b>	
<b>OKs</b>	<ol style="list-style-type: none"> <li>1. NIMs seem to be stabilising, though recovery may be gradual.</li> </ol>

**CIMB Niaga has released its 2QFY23 results.** Here are some briefing highlights:

### Income Statement

**Strongest ever 1H earnings.** CIMB's 1HFY23 core net profit (Core NP) of IDR3.23b rose 28%yoy, seeing improvements in NII, NOII, OPEX and provisioning, though it was dragged slightly by increased OPEX and higher "Tax and Others". Management is revising its FY23 ROE guidance to 14-16% (from 12-14%), with improved RWA optimisation contributing.

**Quarter-on-quarter.** CIMB Niaga's quarterly Core NP of IDR1.65b rose by 4%qoq – OPEX showed good improvement, while improvements in NII and NOII were of a smaller scale. Higher provisions and "Tax and others" did offset some of the improvements.

**NIMs see -19bps decline qoq but should improve.** This was attributable not only to an increase in deposit COF but also a reduction in quarterly loan yields (which became extremely elevated in the last quarter), which management suggests should reflect a more normalised number going forward. Management is anticipating further loan yield benefits in 4QFY23, though the uplift may not be as substantial.

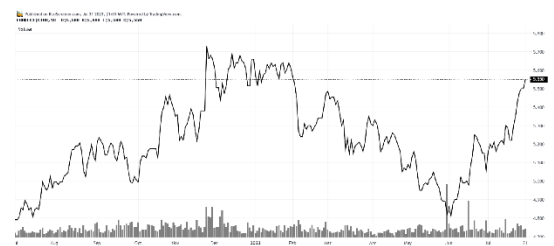
Management is maintaining its NIM guidance which should factor in further expansion in 2HFY23. The majority of this will come in the form of COF management, via CASA growth and time deposit reduction. COF should have peaked or be close to peaking at this point.

**Maintain BUY**
**Unchanged Target Price: RM6.39**

### RETURN STATISTICS

Price @ 31 July 2023 (RM)	5.50
Expected share price return (%)	+16.2
Expected dividend yield (%)	+6.1
Expected total return (%)	+22.4

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	9.1	3.1
3 months	9.1	6.1
12 months	6.0	8.6

### INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
<b>Core NP (RM m)</b>	<b>6,496</b>	<b>7,044</b>	<b>7,521</b>
CNP growth (%)	17	8	7
<b>Div yield (%)</b>	<b>5.7</b>	<b>6.1</b>	<b>6.6</b>
Gross DPS (sen)	31.2	33.8	36.1
<b>P/BV (x)</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>
BVPS (RM)	6.4	6.8	7.2
<b>ROE (%)</b>	<b>10.1</b>	<b>10.3</b>	<b>10.3</b>
<b>MIDF/Street CNP (%)</b>	<b>101</b>	<b>102</b>	<b>103</b>

### KEY STATISTICS

FBM KLCI	1,459.43
Issue shares (m)	10,474.0
Estimated free float (%)	41.7
Market Capitalisation (RM'm)	58,871.4
52-wk price range	RM4.8 - RM5.9
3-mth avg daily volume (m)	14.2
3-mth avg daily value (RM'm)	72.0
Top Shareholders (%)	
Khazanah Nasional Bhd	23.6
EPF Board	14.9
Amanah Saham Nasional Bhd	9.9

**Analyst**

Samuel Woo

samuel.woo@midf.com.my

**NOII +2%qoq driven by loan recovery and improvements in MTM income.** This offset lacklustre fee and commissions income as well as FX & derivative income seen within the quarter. Going forward, management is confident that NOII outlook is more optimistic with fewer interest rate movements weighing down on treasury income.

**OPEX -5%qoq reduction but should increase in subsequent quarters.** This was largely due to reductions in tech and Other Expenses. Tech expenses in 1HFY23 fell -12%yoy – but management has guided for potential future products that may push up spend in 2HFY23.

### Balance Sheet

**A conscious effort to reduce time deposits.** Overall deposits fell by -1.8%qoq as a result of a sharp -10%qoq decrease in time deposits (paring down the sharp gain in time deposits occurring in the last quarter). CASA saw encouraging growth of 3%qoq. Going forward management is confident that it can keep growing its CASA in subsequent quarters – intending to raise its CASA ratio to 66% (from the current value of 64.3%).

**Loan growth is recovering from last quarter's weak figures.** Loans have risen by a healthy +2.5%qoq, though sequential year figure of +8.6%yoy could be better. Though competition remains intense, management hints at actual loan growth possibly beating the target of 6-8% for FY23 – core drivers include mortgages, auto loans and SME loans. The group will be targeting double digit loan growth in SME, auto and credit card segments.

**Quarterly provisioning was elevated due to a MEF refresh, while asset quality trend is still healthy.** 1HFY23 Cost of Credit (CoC) figures came up to 1.8%. Regardless, due to improving NPL and Loans at Risk (LAR) figures, management has reduced its CoC guidance for the year to 1.5-1.7% – we believed that the initial values of 1.6-1.8% were far too conservative. LAR has come down across various businesses.

**Liquidity and CAR values are still extremely healthy.** There has been an uptick in CAR and Tier-1 capital this quarter, due to improvements in RWA optimisation. As a result, management is increasing its FY23 ROE guidance to 14-16%, from the initial 12-14%.

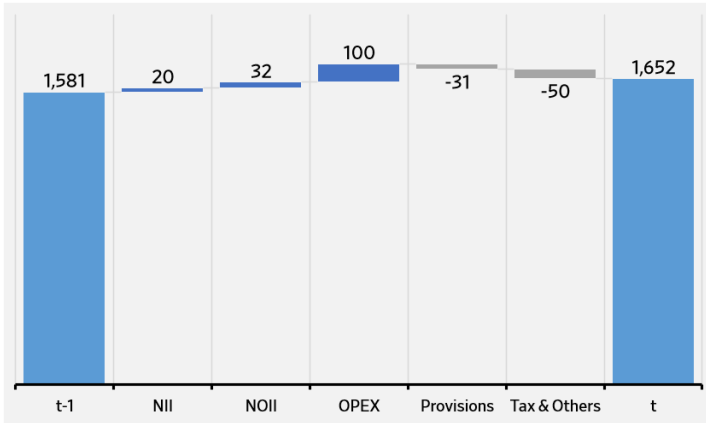
**Forecasts unchanged.** We make no alterations to our forecasts.

**Key downside risks.** (1) Lacklustre NIM recovery, (2) Asset quality deteriorates worse than expected, (3) Loan growth weaker than expected.

**Maintain BUY call: Unchanged GGM-TP of RM 6.39 (from RM6.39).** The TP is based on an unchanged FY24F P/BV of 0.94x. CIMB remains one of our top picks for the sector, given its exposure to the lucrative Indonesian market and strong NOII outlook. (**GGM assumptions:** FY24F ROE of 10.3%, LTG of 3.5% & COE of 10.7%)

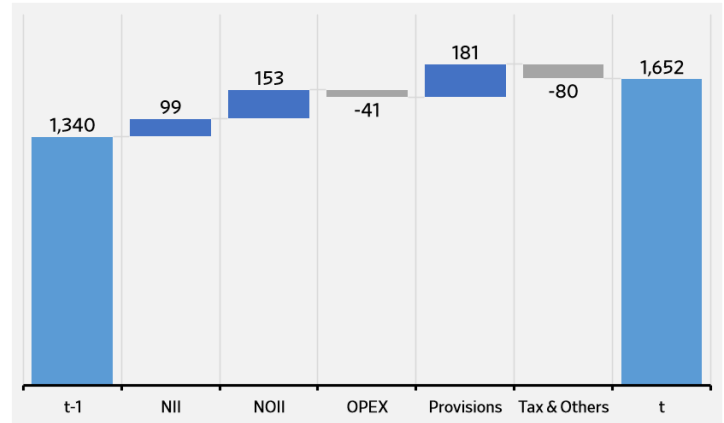


**Fig 1: QoQ P/L walk (Quarterly results)**



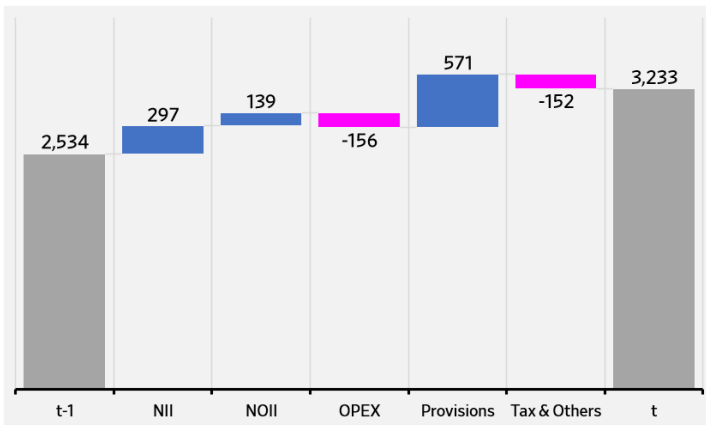
Source: CIMB, MIDFR

**Fig 2: YoY P/L walk (Quarterly results)**



Source: CIMB, MIDFR

**Fig 3: YoY P/L walk (Cumulative results)**



Source: CIMB, MIDFR

Fig 4: Quarterly results

FYE Dec (IDR b)	2Q FY23	1Q FY23	2Q FY22	Yoy (%)	QoQ (%)	1H FY23	1H FY22	Yoy (%)
Net interest income	3,427	3,407	3,328	3	1	6,834	6,537	5
Non interest income	1,608	1,576	1,455	11	2	3,184	3,045	5
<b>Net income</b>	<b>5,035</b>	<b>4,983</b>	<b>4,783</b>	<b>5</b>	<b>1</b>	<b>10,018</b>	<b>9,582</b>	<b>5</b>
OPEX	(2,119)	(2,219)	(2,078)	2	-5	(4,338)	(4,182)	4
<b>PPOP</b>	<b>2,916</b>	<b>2,764</b>	<b>2,705</b>	<b>8</b>	<b>5</b>	<b>5,680</b>	<b>5,400</b>	<b>5</b>
Provisions	(780)	(749)	(961)	-19	4	(1,529)	(2,100)	-27
<b>Core PBT</b>	<b>2,136</b>	<b>2,015</b>	<b>1,744</b>	<b>22</b>	<b>6</b>	<b>4,151</b>	<b>3,300</b>	<b>26</b>
<b>Core NP</b>	<b>1,652</b>	<b>1,581</b>	<b>1,340</b>	<b>23</b>	<b>4</b>	<b>3,233</b>	<b>2,534</b>	<b>28</b>
<b>Reported PBT</b>	<b>2,136</b>	<b>2,015</b>	<b>1,745</b>	<b>22</b>	<b>6</b>	<b>4,151</b>	<b>3,301</b>	<b>26</b>
<b>Reported NP</b>	<b>1,652</b>	<b>1,581</b>	<b>1,340</b>	<b>23</b>	<b>4</b>	<b>3,233</b>	<b>2,534</b>	<b>28</b>
Total loans (IDR tr)	206	201	190	8.6	2.5			
Total deposits (IDR tr)	236	240	232	1.6	-1.8			
CASA (IDR tr)	152	147	152	-0.6	3.1			
Ratios (%)	2Q FY23	1Q FY23	2Q FY22	Yoy (ppts)	QoQ (ppts)	1H FY23	1H FY22	Yoy (ppts)
<b>ROE (Ann.)</b>	<b>15.8</b>	<b>15.1</b>	<b>13.7</b>	<b>2.1</b>	<b>0.7</b>	<b>15.4</b>	<b>12.8</b>	<b>2.6</b>
<b>NIM (Reported)</b>	<b>4.52</b>	<b>4.71</b>	<b>4.63</b>	<b>-0.11</b>	<b>-0.19</b>	<b>4.61</b>	<b>4.54</b>	<b>0.07</b>
NOII/Net income	31.9	31.6	30.4	1.5	0.3	31.8	31.8	0.0
Cost/Income	42.1	44.5	43.4	-1.4	-2.4	43.3	43.6	-0.3
CoC (Ann.) (bps)	180	150	170	10	30	160	210	-50
Gross NPL ratio	2.50	2.60	3.50	-1.00	-0.10			
G. impairment ratio	5.90	6.20	6.50	-0.60	-0.30			
Loan loss coverage	262	254	215	47	8			
CASA ratio	64.3	61.2	65.7	-1.4	3.1			
L/D ratio (Reported)	86.0	82.2	80.9	5.1	3.8			
CAR - Tier 1	23.2	20.3	20.1	3.1	2.9			

Source: CIMB, MIDFR

Fig 5: Renewed Guidance

Key Metrics	2022 Actual	1H23 Actual	Previous 2023 Guidance	Updated 2023 Guidance
Loan Growth	9.4%	8.6%	6% - 8%	Unchanged
NIM	4.69%	4.61%	4.6% - 4.8%	Unchanged
CoC	1.8%	1.6%	1.6% - 1.8%	1.5% - 1.7%
CIR	44.9%	43.3%	Below 45.0%	Unchanged
RoE #	12.6%	15.4%	12% - 14%	14% - 16%

Source: CIMB, MIDFR

## FINANCIAL SUMMARY

## INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	16,096	18,646	19,809	21,546	21,929
Interest expense	(5,221)	(7,016)	(7,980)	(9,120)	(9,120)
<b>Net interest income</b>	<b>10,874</b>	<b>11,630</b>	<b>11,829</b>	<b>12,426</b>	<b>12,809</b>
Islamic banking inc.	3,533	4,000	3,573	3,670	3,783
Other operating inc.	5,105	4,208	5,021	5,882	6,597
<b>Net income</b>	<b>19,513</b>	<b>19,838</b>	<b>20,423</b>	<b>21,978</b>	<b>23,189</b>
OPEX	(9,419)	(9,346)	(9,599)	(10,220)	(10,551)
<b>PPOP</b>	<b>10,094</b>	<b>10,492</b>	<b>10,824</b>	<b>11,758</b>	<b>12,638</b>
Loan allowances	(2,614)	(1,953)	(1,878)	(1,962)	(2,040)
Other allowances	(1,759)	(209)	(200)	(296)	(451)
JV & Associates	68	40	111	121	129
<b>PBT</b>	<b>5,789</b>	<b>8,371</b>	<b>8,857</b>	<b>9,621</b>	<b>10,276</b>
Tax & zakat	(1,397)	(2,778)	(2,214)	(2,405)	(2,569)
NCI	(97)	(153)	(166)	(180)	(193)
<b>Reported NP</b>	<b>4,295</b>	<b>5,440</b>	<b>6,477</b>	<b>7,035</b>	<b>7,514</b>
<b>Core NP</b>	<b>4,648</b>	<b>5,542</b>	<b>6,496</b>	<b>7,044</b>	<b>7,521</b>
Total NII	13,958	15,158	14,973	15,729	16,214
Total NOII	5,555	4,680	5,450	6,249	6,975

## BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
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	413,097	430,132	447,030
Other IEAs	5,885	9,751	11,214	12,560	14,067
Non-IEAs	44,325	58,897	61,432	67,504	73,723
<b>Total assets</b>	<b>621,907</b>	<b>666,721</b>	<b>691,047</b>	<b>716,685</b>	<b>742,728</b>
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
<b>Total liabilities</b>	<b>561,798</b>	<b>602,937</b>	<b>623,201</b>	<b>644,225</b>	<b>666,026</b>
Share capital	27,100	29,095	29,095	29,095	29,095
Reserves	31,764	33,397	37,290	41,819	45,981
<b>Shareholders' funds</b>	<b>58,863</b>	<b>62,491</b>	<b>66,384</b>	<b>70,913</b>	<b>75,076</b>
Perpetual pref. shares	200	200	200	200	200
NCI	1,045	1,093	1,261	1,347	1,426
<b>Total equity</b>	<b>60,109</b>	<b>63,784</b>	<b>67,846</b>	<b>72,461</b>	<b>76,702</b>
<b>Total L&amp;E</b>	<b>621,907</b>	<b>666,721</b>	<b>691,047</b>	<b>716,685</b>	<b>742,728</b>
Total IEAs	577,582	607,824	629,614	649,181	669,005
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
<b>Interest (%)</b>					
NIM	2.47	2.56	2.42	2.46	2.46
Return on IEAs	2.85	3.15	3.20	3.37	3.33
Cost of funds	1.01	1.30	1.43	1.57	1.52
Net interest spread	1.84	1.84	1.77	1.79	1.80
<b>Profitability (%)</b>					
<b>ROE</b>	<b>8.1</b>	<b>9.1</b>	<b>10.1</b>	<b>10.3</b>	<b>10.3</b>
ROA	0.8	0.9	1.0	1.0	1.0
NOII/Net income	28.5	23.6	26.7	28.4	30.1
Effective tax rate	24.1	33.2	25.0	25.0	25.0
Cost/Income	48.3	47.1	47.0	46.5	45.5
<b>Liquidity (%)</b>					
Loan/Deposit	86.3	91.1	90.9	90.9	90.8
CASA ratio	44.0	42.1	41.0	38.0	36.0
<b>Asset Quality (%)</b>					
GIL ratio	3.52	3.27	3.30	3.14	3.12
LLC ratio	100	93	100	100	100
LLC (w. reserves)	101	96	112	113	112
Net CC (bps)	70	50	45	45	45
<b>Capital (%)</b>					
CET 1	14.2	14.5	14.7	14.3	14.0
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
<b>Growth (%)</b>					
Total NII	9.7	8.6	-1.2	5.1	3.1
Total NOII	30.3	-15.8	16.5	14.7	11.6
Net income	14.9	1.7	3.0	7.6	5.5
OPEX	7.3	-0.8	2.7	6.5	3.2
Core NP	289.3	19.2	17.2	8.4	6.8
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
<b>Valuation metrics</b>					
Core EPS (sen)	44.6	53.2	62.3	67.6	72.1
Gross DPS (sen)	23.0	26.0	31.2	33.8	36.1
Div payout (%)	54	50	50	50	50
BVPS (RM)	5.6	6.0	6.4	6.8	7.2
Core P/E (x)	12.3	10.3	8.8	8.1	7.6
<b>Div yield (%)</b>	<b>4.2</b>	<b>4.7</b>	<b>5.7</b>	<b>6.1</b>	<b>6.6</b>
P/BV (x)	1.0	0.9	0.9	0.8	0.8

Source: CIMB, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### 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 <i>rise</i> 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 <i>fall</i> 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