

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

Maintain BUY

CIMB Niaga 3QFY23: Uplift from Sharp CoC Reduction

Unchanged Target Price: RM6.43

KEY INVESTMENT HIGHLIGHTS

- **Purpose:** Niaga results and briefing
- **Management's tone:** Neutral with downside bias
- **Core themes:** (a) Balance sheet growth was lacklustre, (b) Solid improvement from asset quality standpoint, (c) Heavy 4QFY23 provision guided, (d) Potentially lacklustre corporate loan growth in FY24
- **Forecasts unchanged**
- **Maintain BUY | Unchanged TP of RM6.43 | based on an unchanged FY24F P/BV of 0.95x**

Verdict: Risk-reward still skewed towards the +ve, though not without some downside risk.

Yays	<ol style="list-style-type: none"> 1. Niaga offers exposure to lucrative Indonesian market. 2. NOII should remain solid, though not on the scale of 2Q.
Nays	<ol style="list-style-type: none"> 1. Heavier OPEX expected in 2HFY23.
OKs	<ol style="list-style-type: none"> 1. While Group NIMs could see sequential improvement in 3Q, outlook for 4Q and beyond is less certain. 2. While 2HFY23's loan growth should remain resilient, FY24's outlook is less certain – the end of overseas restructuring programmes should lower downside pressure.

CIMB Niaga has released its 3QFY23 results. Here are some briefing highlights:

Income Statement

Strongest ever quarterly earnings. Niaga's 9MFY23 core net profit (Core NP) of IDR4.9t rose by a whopping +26%yoy. There was improvement on all fronts, aside from OPEX.

Quarter-on-quarter. Niaga's quarterly Core NP of IDR1.7t rose by +1.0%qoq despite a much weaker NII and NOII result contributing to weaker topline. Core driver was a sizeable reduction in provisioning (and a smaller one for OPEX).

NIM falls by -19bps qoq. Loan yields did see some normalisation after last quarter's temporal blip. With BI having increased the interest rates, loan yields are expected to rise even further in coming quarters – but so are FD rates. Hence management has reduced its FY23 NIM guidance.

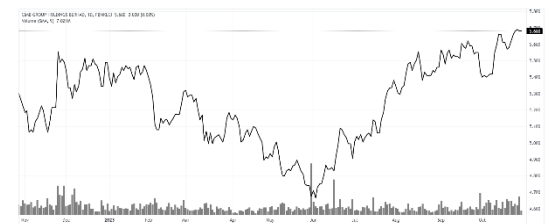
NOII fell by a sharp -29%qoq. Increases in interest rate put a damper on non-fee income (though derivatives saw good improvement). NPL sales, being an inconsistent source of income, were far weaker after 2QFY23's bumper result.

OPEX was well controlled. Quarterly OPEX fell by -2%qoq, only rising by +2.6%yoy, as the Group continues to slash establishment costs. Hence CIR spike this quarter was more attributable to a weaker income line, rather than failure to control cost.

RETURN STATISTICS

Price @ 27 October 2023 (RM)	5.68
Expected share price return (%)	+13.3
Expected dividend yield (%)	+6.0
Expected total return (%)	+19.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	4.5	2.2
3 months	9.5	9.1
12 months	2.2	6.4

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	6,509	7,071	7,549
CNP growth (%)	17	9	7
Div yield (%)	6.0	6.0	6.4
Gross DPS (sen)	34.3	33.9	36.2
P/BV (x)	0.9	0.8	0.8
BVPS (RM)	6.3	6.8	7.2
ROE (%)	10.1	10.3	10.4
MIDF/Street CNP (%)	100	101	100

KEY STATISTICS

FBM KLCI	1,441.90
Issue shares (m)	10,474.0
Estimated free float (%)	41.3
Market Capitalisation (RM'm)	59,084.7
52-wk price range	RM4.8 - RM5.9
3-mth avg daily volume (m)	13.6
3-mth avg daily value (RM'm)	70.1
Top Shareholders (%)	
Khazanah Nasional Bhd	23.6
EPF Board	15.3
Amanah Saham Nasional Bhd	9.9

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Balance Sheet

Weak quarterly loan growth performance. Loan growth rose by +0.2%qoq – management has stated it prioritises acquiring high-quality loans (from an asset quality standpoint) over cheaper lending rates for faster growth. C&C (Corporate and Commercial) segment was especially weak this quarter, but this was dragged by a large one-off repayment in the corporate segment.

Going forward, loan growth may be less exuberant in 2HFY23 and early FY24, with downside coming from corporate borrowers who have frontloaded their refinancing to 1HFY23, in anticipation of election-related uncertainties.

Deposit growth was also weak, in order to match loan growth. Deposits fell by -0.2%qoq; while CASA growth grew by a strong +3.5%qoq, term deposits have been cut down by a sharp -7%qoq to reduce COF and optimise LDR (mgmt wants to keep it at an ideal level of 85-86%).

Exceptionally lower provisioning charge of 40bps. In context, CoC for last 4 quarters has not dropped below 130bps. Mgmt attributes this low charge to improvements in asset quality, sufficient NPL coverage and low loan growth in the quarter. Hence, it has reduced its CoC guidance for FY23 but is cautious of a heavy 4QFY23. Group will try to maintain this new CoC steady state going forward.

Forecasts unchanged. We make no changes to our earnings.

Key downside risks. (1) Seasonal deposit competition causes NIM disappointment, (2) Asset quality issues, (3) Weaker-than-expected loan growth.


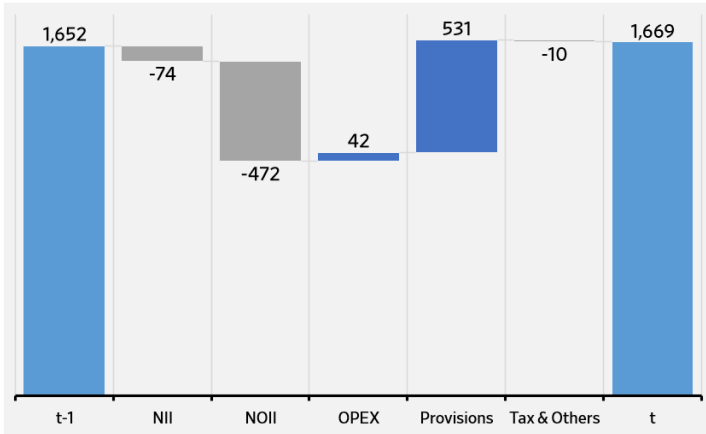
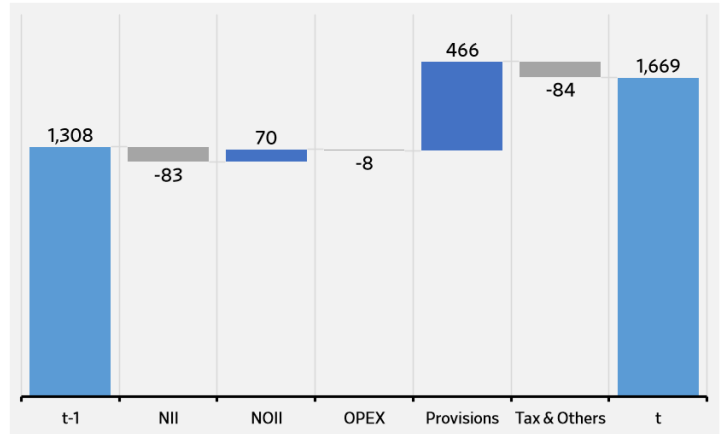
Maintain BUY call: Unchanged GGM-TP of RM 6.43. The TP is based on an unchanged FY24F P/BV of 0.95x. CIMB remains one of our top picks for the sector, given its exposure to the lucrative Indonesian market and solid NOII-generating potential. (**GGM assumptions:** FY24F ROE of 10.3%, LTG of 3.5% & COE of 10.7%) 

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



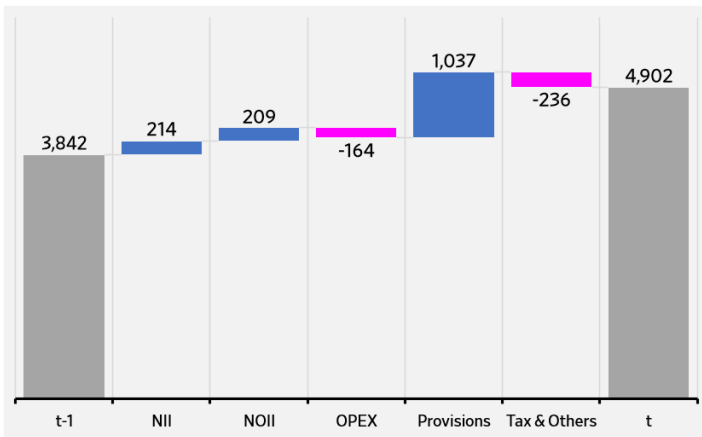
Source: CIMB, MIDFR

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)	3Q FY23	2Q FY23	3Q FY22	Yoy (%)	Qoq (%)	9M FY23	9M FY22	Yoy (%)
Net interest income	3,353	3,427	3,436	-2	-2	10,187	9,973	2
Non interest income	1,136	1,608	1,066	7	-29	4,320	4,111	5
Net income	4,489	5,035	4,502	-0	-11	14,507	14,084	3
OPEX	(2,077)	(2,119)	(2,069)	0	-2	(6,415)	(6,251)	3
PPOP	2,412	2,916	2,433	-1	-17	8,092	7,833	3
Provisions	(249)	(780)	(715)	-65	-68	(1,778)	(2,815)	-37
Core PBT	2,163	2,136	1,718	26	1	6,314	5,018	26
Core NP	1,669	1,652	1,308	28	1	4,902	3,842	28
Total loans (IDR tr)	206	206	195	5.6	-0.2			
Total deposits (IDR tr)	253	236	222	14.2	7.4			
CASA (IDR tr)	157	152	150	4.5	3.5			
Ratios (%)	3Q FY23	2Q FY23	3Q FY22	Yoy (ppts)	QoQ (ppts)	9M FY23	9M FY22	Yoy (ppts)
ROE (Ann.)	15.3	15.8	13.1	2.2	-0.5	15.4	12.9	2.5
NIM (Reported)	4.33	4.52	4.77	-0.44	-0.19	4.52	4.62	-0.10
NOII/Net income	25.3	31.9	23.7	1.6	-6.6	29.8	29.2	0.6
Cost/Income	46.3	42.1	46.0	0.3	4.2	44.2	44.4	-0.2
CoC (Ann.) (bps)	40	180	130	-90	-140	120	180	-60
Gross NPL ratio	2.40	2.50	3.60	-1.20	-0.10			
G. impairment ratio	5.90	5.90	6.20	-0.30	0.00			
Loan loss coverage	267	262	209	58	5			
CASA ratio	62.0	64.3	67.7	-5.7	-2.3			
L/D ratio (Reported)	86.4	86.0	86.9	-0.5	0.4			
CAR - Tier 1	23.8	23.2	19.9	3.9	0.6			

Source: CIMB, MIDFR

Fig 5: Latest Guidance

Updated 2023 guidance

Key Metrics	2022 Actual	9M23 Actual	Previous 2023 Guidance	Updated 2023 Guidance
Loan Growth	9.4%	5.2%	6% - 8%	Unchanged
NIM	4.69%	4.52%	4.6% - 4.8%	4.45% - 4.55%
CoC	1.8%	1.2%	1.6% - 1.8%	1.1% - 1.2%
CIR	44.9%	44.2%	Below 45.0%	Unchanged
RoE #	12.6%	15.4%	14% - 16%	Unchanged

Source: CIMB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	16,096	18,646	19,846	21,624	22,010
Interest expense	(5,221)	(7,016)	(7,980)	(9,120)	(9,120)
Net interest income	10,874	11,630	11,866	12,504	12,890
Islamic banking inc.	3,533	4,000	3,584	3,693	3,807
Other operating inc.	5,105	4,208	5,021	5,882	6,597
Net income	19,513	19,838	20,472	22,079	23,294
OPEX	(9,419)	(9,346)	(9,622)	(10,267)	(10,599)
PPOP	10,094	10,492	10,850	11,813	12,695
Loan allowances	(2,614)	(1,953)	(1,887)	(1,980)	(2,060)
Other allowances	(1,759)	(209)	(200)	(296)	(451)
JV & Associates	68	40	112	121	130
PBT	5,789	8,371	8,874	9,657	10,314
Tax & zakat	(1,397)	(2,778)	(2,219)	(2,414)	(2,579)
NCI	(97)	(153)	(166)	(181)	(193)
Reported NP	4,295	5,440	6,489	7,062	7,542
Core NP	4,648	5,542	6,509	7,071	7,549
Total NII	13,958	15,158	15,021	15,828	16,317
Total NOII	5,555	4,680	5,451	6,251	6,978

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	417,034	434,233	451,295
Other IEAs	5,885	9,751	11,214	12,560	14,067
Non-IEAs	44,325	58,897	59,546	63,092	69,161
Total assets	621,907	666,721	693,096	716,374	742,431
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	56,123	55,407	57,232
Total liabilities	561,798	602,937	625,576	644,225	666,026
Share capital	27,100	29,095	29,095	29,095	29,095
Reserves	31,764	33,397	36,971	41,513	45,689
Shareholders' funds	58,863	62,491	66,065	70,608	74,784
Perpetual pref. shares	200	200	200	200	200
NCI	1,045	1,093	1,255	1,342	1,421
Total equity	60,109	63,784	67,521	72,149	76,405
Total L&E	621,907	666,721	693,096	716,374	742,431
Total IEAs	577,582	607,824	633,551	653,282	673,270
Total IBLs	527,381	548,598	569,452	588,817	608,794
Gross loans	378,033	407,057	431,481	448,740	466,689
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	2.42	2.46	2.46
Return on IEAs	2.85	3.15	3.20	3.36	3.32
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
Profitability (%)					
ROE	8.1	9.1	10.1	10.3	10.4
ROA	0.8	0.9	1.0	1.0	1.0
NOII/Net income	28.5	23.6	26.6	28.3	30.0
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
Liquidity (%)					
Loan/Deposit	86.3	91.1	91.7	91.8	91.7
CASA ratio	44.0	42.1	41.0	38.0	36.0
Asset Quality (%)					
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	112	112
Net CC (bps)	70	50	45	45	45
Capital (%)					
CET 1	14.2	14.5	14.7	14.3	14.0
Tier 1 capital	15.1	15.4	15.5	15.1	14.8
Total capital	18.0	18.5	18.7	18.3	17.9
Growth (%)					
Total NII	9.7	8.6	-0.9	5.4	3.1
Total NOII	30.3	-15.8	16.5	14.7	11.6
Net income	14.9	1.7	3.2	7.9	5.5
OPEX	7.3	-0.8	3.0	6.7	3.2
Core NP	289.3	19.2	17.4	8.6	6.8
Gross loans	3.3	7.7	6.0	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	62.4	67.8	72.4
Gross DPS (sen)	23.0	26.0	34.3	33.9	36.2
Div payout (%)	54	50	55	50	50
BVPS (RM)	5.6	6.0	6.3	6.8	7.2
Core P/E (x)	12.7	10.7	9.1	8.4	7.8
Div yield (%)	4.0	4.6	6.0	6.0	6.4
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 <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