

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

Niaga 4Q23: Muted loans growth outlook

KEY INVESTMENT HIGHLIGHTS

- **Management's tone: Neutral**
- **Core themes: (a) Tougher loan outlook, (b) NIM to see recovery, (c) A breakthrough in customer acquisition**
- **Forecasts unchanged**
- **Maintain BUY | Unchanged TP of RM6.82 | based on an unchanged FY25F P/BV of 0.96x**

Verdict: On a long-term basis, certainty on CIMB's plans post-Forward23+ is core catalyst for further positive re-rating.

Yays	Nays	OKs
<ol style="list-style-type: none"> 1. CIMB Niaga remains core driver. 2. Digital initiatives are coming into fruition. 3. Likely further room for base NCC and GIL ratio improvement. 4. Strong dividend yields. 	<ol style="list-style-type: none"> 1. Thailand is yet to stage a convincing turnaround. 2. Concerns that ROE level has reached its peak. 	<ol style="list-style-type: none"> 1. Uncertainty post-Forward23+. 2. Effects of a cost restructuring exercise in FY24 will only manifest in FY25 onward.

CIMB Niaga has released its 4QFY23 results. Here are some briefing highlights:

Income Statement

FY23's Core NP of IDR6.5tr showed excellent 28%yoy growth. While topline was flattish, excellent cost control and smaller provisions fuelled the earnings growth.

4QFY23's Core NP of IDR1.6tr saw a -6%qoq contraction. Unfortunately, better OPEX and provisioning profile was offset by a steep drop in NII. NII dip was steeper than expected – NIM ended below FY23 guidance.

Balance Sheet

Strong loan growth but sharp paring down of deposits. Loans grew by +3.8%qoq, with great growth across all segments. Note, however, a slow +0.1%qoq growth in mortgages, as competition ramps up.

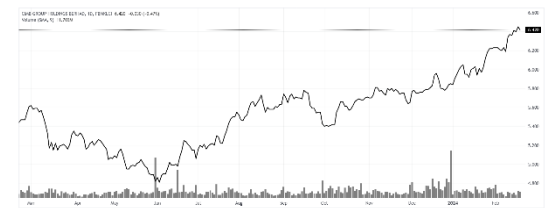
On the other hand, Niaga saw a sharp -4.0%qoq fall in CASA. However, CASA ultimately showed a +4.3%yoy growth, which outperformed the market. NPL saw tremendous improvement, falling by -40bps qoq to 2.00%.

Maintain BUY
Unchanged Target Price: RM6.82

RETURN STATISTICS

Price @ 21 February 2024 (RM)	6.42
Expected share price return (%)	+6.2
Expected dividend yield (%)	+6.3
Expected total return (%)	+12.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	7.0	2.6
3 months	9.9	4.9
12 months	18.2	12.4

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	6,821	7,229	7,717
CNP growth (%)	23	6	7
Div yield (%)	5.8	6.1	6.5
Gross DPS (sen)	36.0	38.1	40.7
P/BV (x)	1.0	0.9	0.9
BVPS (RM)	6.4	6.7	7.1
ROE (%)	10.6	10.6	10.7
MIDF/Street CNP (%)	101	100	100

KEY STATISTICS

FBM KLCI	1,552.40
Issue shares (m)	10,474.0
Estimated free float (%)	43.4
Market Capitalisation (RM'm)	68,576.6
52-wk price range	RM4.8 - RM6.46
3-mth avg daily volume (m)	17.1
3-mth avg daily value (RM'm)	101.3
Top Shareholders (%)	
Khazanah Nasional Bhd	23.6
EPF Board	13.7
Amanah Saham Nasional Bhd	9.9

Analyst

Samuel Woo

samuel.woo@midf.com.my

A lower loan growth target for FY24, driven by weaker corporate drawdowns. FY24's target has been reduced to 5-7% from FY23's 6-8% (FY23 actual: 8.5%). This is due to several factors:

- 1. Election-related uncertainty.** As election results will only be announced in 3QFY24, most corporates would wait until then before seeking funding.
- 2. High base effects from corporate loans in FY23.** Several names frontloaded capex ahead of elections. In FY23, some took advantage of the low COF situation in Indonesia relative to offshore locations – unfortunately, COF has since risen.
- 3. Heightened competition for retail and SME loans.** BCA, one of the big 4 Indonesian banks, has been asked by OJK to increase its L/D ratio. BCA is fueling this growth by pricing loans competitively – given its size, this is affecting the asset yields across the entire industry. But CIMB Niaga seems quite confident that it can weather through – it has shifted its attention to second-tier cities to maintain its consumer and SME growth.
- 4. Prioritising asset quality over loan growth.** In line with the wider Group's direction, Niaga has made great strides in improving its asset quality. It is striving for savings via a sleeker Cost of Credit (CoC) profile – the current target of 1.0-1.1% will be Niaga's target "stable state" in subsequent years.

NIM dipped this quarter but should see gradual recovery. 4QFY23's NIM fell by -28bps qoq. This brought the FY23 figure to 4.4%, below its 4.45-4.55% guidance. The sequential quarter drop was due to seasonal effects on COF (which was heavier than expected), as well as asset yield tightening (lower yielding bonds). Going forward, asset yields are expected to remain stable, while COF should improve – though the brunt of improvement will be seen in 2HFY24 when CASA accumulation plans start kicking in.

Niaga believes that a fall in interest rates will be positive for NIMs. Management believes that deposits will reprice downward first before loan yields follow suit.

A breakthrough in online/mobile customer acquisition. In FY23, Niaga saw a huge >50%yoy growth in digital transaction value and digital saving account opening, attributable to several new partnerships. Management believes the current rate of growth is sustainable. Most of the new customers are in the retail segment, associated with sticky and cheap CASA. A portion of the customer base is linked to SMEs – Niaga believes in huge cross-selling potential.

Inorganic expansions under consideration. Niaga is considering an expansion of segments that fit its growth plan. These include a possible "bad-debt bank" (CIMB's MY and TH segments already use this), which plays into the wider Group's current effort of managing its asset quality. Although Niaga's current Tier 1 CAR of 23% is a lot higher than its target of 18%, it will maintain its Tier 1 CAR at this level given potential future inorganic expansions.

Forecasts unchanged. We maintain our forecasts.

Key downside risks. (1) Higher-than-expected credit costs, (2) Further NIM compression, (3) Lacklustre loan growth.

Maintain BUY call: Unchanged GGM-TP of RM6.82. The TP is based on an unchanged FY24F P/BV of 0.96x.

(GGM assumptions: FY25F ROE of 10.7%, LTG of 3.5% & COE of 11.0%)



Fig 1: Quarterly results

FYE Dec (IDR b)	4Q FY23	3Q FY23	4Q FY22	Yoy (%)	Qoq (%)	FY23	FY22	Yoy (%)
Net interest income	3,165	3,353	3,502	-10	-6	13,352	13,475	-1
Non interest income	1,114	1,136	1,279	-13	-2	5,434	5,390	1
Net income	4,279	4,489	4,781	-10	-5	18,786	18,865	-0
OPEX	(2,007)	(2,077)	(2,222)	-10	-3	(8,422)	(8,473)	-1
PPOP	2,272	2,412	2,559	-11	-6	10,364	10,392	-0
Provisions	(228)	(249)	(999)	-77	-8	(2,006)	(3,814)	-47
Core PBT	2,044	2,163	1,560	31	-6	8,358	6,578	27
Core NP	1,573	1,669	1,199	31	-6	6,475	5,041	28
Reported PBT	2,044	2,163	1,560	31	-6	8,358	6,579	27
Reported NP	1,573	1,669	1,199	31	-6	6,475	5,041	28
Total loans (IDR tr)	213	206	199	7.4	3.8			
Total deposits (IDR tr)	236	253	227	3.8	-6.9			
CASA (IDR tr)	151	157	144	4.3	-4.0			
Ratios (%)	4Q FY23	3Q FY23	4Q FY22	Yoy (ppts)	QoQ (ppts)	FY23	FY22	Yoy (ppts)
ROE (Ann.)	13.9	15.3	11.7	2.2	-1.4	15.0	12.6	2.4
NIM (Reported)	4.05	4.33	4.90	-0.85	-0.28	4.40	4.69	-0.29
NOII/Net income	26.0	25.3	26.8	-0.7	0.7	28.9	28.6	0.4
Cost/Income	46.9	46.3	46.5	0.4	0.6	44.8	44.9	-0.1
CoC (Ann.) (bps)	54	37	194	-140	17	103	185	-82
Gross NPL ratio	2.00	2.40	2.80	-0.80	-0.40			
G. impairment ratio	5.10	5.90	7.10	-2.00	-0.80			
Loan loss coverage	292	267	242	50	25			
CASA ratio	63.9	62.0	63.6	0.3	1.9			
L/D ratio (Reported)	89.3	86.4	85.6	3.7	2.9			
CAR - Tier 1	22.9	23.8	21.1	1.8	-0.9			

Source: CIMB, MIDFR

Fig 2: FY24 guidance

Key Metrics	2023 Guidance	2023 Actual	2024 Guidance
Loan Growth	6% - 8%	8.5%	5% - 7%
NIM	4.45% - 4.55%	4.4%	4.2% - 4.4%
CoC	1.1% - 1.2%	1.0%	1.0% - 1.1%
CIR	Below 45.0%	44.8%	Below 45%
RoE #	14% - 16%	15.0%	15% - 16%

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)	(1,467)	(1,760)	(1,831)
Other allowances	(1,759)	(209)	(200)	(296)	(451)
JV & Associates	68	40	112	121	130
PBT	5,789	8,371	9,294	9,877	10,543
Tax & zakat	(1,397)	(2,778)	(2,323)	(2,469)	(2,636)
NCI	(97)	(153)	(174)	(185)	(198)
Reported NP	4,295	5,440	6,796	7,223	7,710
Core NP	4,648	5,542	6,821	7,229	7,717
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	62,651	68,382
Total assets	621,907	666,721	693,096	715,933	741,652
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	55,980	55,407	57,232
Total liabilities	561,798	602,937	625,432	644,225	666,026
Share capital	27,100	29,095	29,095	29,095	29,095
Reserves	31,764	33,397	37,111	41,080	44,925
Shareholders' funds	58,863	62,491	66,206	70,175	74,020
Perpetual pref. shares	200	200	200	200	200
NCI	1,045	1,093	1,258	1,333	1,406
Total equity	60,109	63,784	67,664	71,708	75,626
Total L&E	621,907	666,721	693,096	715,933	741,652
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	10.6	10.6	10.7
ROA	0.8	0.9	1.0	1.0	1.1
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	108	108	108
Net CC (bps)	70	50	35	40	40
Capital (%)					
CET 1	14.2	14.5	14.7	14.3	14.0
Tier 1 capital	15.1	15.4	15.5	15.2	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	23.1	6.0	6.7
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	65.4	69.3	74.0
Gross DPS (sen)	23.0	26.0	36.0	38.1	40.7
Div payout (%)	54	50	55	55	55
BVPS (RM)	5.6	6.0	6.4	6.7	7.1
Core P/E (x)	14.0	11.7	9.5	9.0	8.4
Div yield (%)	3.7	4.2	5.8	6.1	6.5
P/BV (x)	1.1	1.0	1.0	0.9	0.9

Source: CIMB, MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

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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