

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

Niaga 1QFY24: Best Ever Results

KEY INVESTMENT HIGHLIGHTS

- **Management's tone: Slightly optimistic**
- **Core themes: (a) Strong deposit growth, (b) Uncertainty surrounding NIMs, (c) Asset quality has room for improvement**
- **Forecasts unchanged**
- **Upgrade to BUY | Unchanged TP of RM6.95 | based on an unchanged FY25F P/BV of 0.97x**

Verdict: Excellent dividend yields, still some room for positive repricing.

- Yays**
1. CIMB and Singapore provide excellent regional exposure.
 2. Digital initiatives coming to fruition.
 3. Likely some room for base NCC and asset quality optimisation.
 4. Strong dividend yields, with the possibility of special dividend recurrence.

- Nays**
1. Thailand is yet to stage a convincing turnaround.

- OKs**
1. Portfolio restructuring to end soon, reducing loan contraction pressure.

CIMB Niaga has released its 1QFY24 results. Here are some briefing highlights:

Income Statement

1QFY24's Core NP of IDR1.68tr grew by +6%yoy. This is their best ever result. Despite reporting weaker NII and NOII, Niaga was able post growth by demonstrating better cost control and lower provisions.

1QFY24's Core NP grew by +7%qoq. Largely due to improvement in NIIs (there was a +15bps qoq increase in NIMs) and much stronger NOII (from a weaker result in 4QFY23) – despite facing sharp cost growth (low base effects) and higher provisions.

Some uncertainty about NIMs. Management is still coming to terms with last week's rate cut and refuses to give out numerical data on the potential impact to NIMs. They suggest that the impact will be stable to negative – depending on how their peers react. Regardless, management is still optimistic about hitting its FY24 target (recall that they factored in 1 rate hike into their forecast). Continued CASA momentum remains the core growth driver – the Group is focusing on non-sticky mass market CASA (especially in 2nd tier cities) and operational accounts.

Optimistic about costs. Management observes that establishment and admin costs are already starting to be more efficient from cost-cutting measures. It believes it can further optimise its CIR, as asset growth continues to outstrip cost growth.

Upgrade to BUY

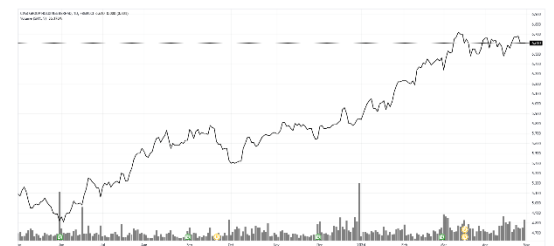
(Previously NEUTRAL)

Unchanged Target Price: RM6.95

RETURN STATISTICS

| | |
|----------------------------------|--------------|
| Price @ 30 April 2024 (RM) | 6.61 |
| Expected share price return (%) | +5.1 |
| Expected dividend yield (%) | +5.9 |
| Expected total return (%) | +11.0 |

SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month | -0.5 | -3.1 |
| 3 months | -0.5 | 2.8 |
| 12 months | 32.1 | 18.5 |

INVESTMENT STATISTICS

| FYE Dec | FY24F | FY25F | FY26F |
|-----------------------|--------------|--------------|--------------|
| Core NP (RM m) | 7,480 | 7,907 | 8,268 |
| CNP growth (%) | 7 | 6 | 5 |
| Div yield (%) | 5.7 | 5.9 | 6.0 |
| Gross DPS (sen) | 37.5 | 38.7 | 39.5 |
| P/BV (x) | 1.0 | 0.9 | 0.9 |
| BVPS (RM) | 6.8 | 7.2 | 7.6 |
| ROE (%) | 10.6 | 10.6 | 10.5 |

KEY STATISTICS

| | |
|------------------------------|----------------|
| FBM KLCI | 1,575.95 |
| Issue shares (m) | 10,664.8 |
| Estimated free float (%) | 44.1 |
| Market Capitalisation (RM'm) | 70,593.8 |
| 52-wk price range | RM4.74 - RM6.8 |
| 3-mth avg daily volume (m) | 19.5 |
| 3-mth avg daily value (RM'm) | 127.3 |
| Top Shareholders (%) | |
| Khazanah Nasional Bhd | 22.0 |
| EPF Board | 14.9 |
| Amanah Saham Nasional Bhd | 9.9 |

Analyst

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Balance Sheet

Loan growth contracted by -0.8%qoq. The weak result was due to seasonal effects (holiday season) coupled with management taking a more cautious approach to applications – particularly in the non-retail segment. Observe a particularly sharp contraction in the corporate segment.

Deposits, on the other hand, experienced huge rebound after 4QFY23's sharp dip, jumping by +5.2%qoq. While time deposits saw decent growth, CASA saw an impressive +6.3%qoq rebound.

NPL ratio climbs to 2.1% from 2.0% last quarter. However, this is less the case of further deterioration, and more so a contraction in gross loans (especially within the business banking portfolio). The Group still sees further room for NPL ratio improvement. However, it is less clear about provisioning outlook for FY24: while there was a lower NCC of 82bps (FY24 target 100-110bps), the Group continues to retain its NCC target, implying heavy provisions in coming quarters.

Forecasts unchanged.

Key downside risks. (1) Lacklustre NOII, (2) Higher-than-expected COF, (3) Weak loan growth.

Upgrade to BUY call: Unchanged GGM-TP of RM 6.95 (from RM6.95). The TP is based on an unchanged FY25F P/BV of 0.97x. We upgraded our call as the share price has become more attractive recently.

(GGM assumptions: FY25F ROE of 10.6%, LTG of 3.5% & COE of 10.8%)



Fig 1: Quarterly results

| FYE Dec (IDR b) | 1Q FY24 | 4Q FY23 | 1Q FY23 | Yoy (%) | Qoq (%) | 3M FY24 | 3M FY23 | Yoy (%) |
|-------------------------|--------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|
| Net interest income | 3,285 | 3,165 | 3,407 | -4 | 4 | 3,285 | 3,407 | -4 |
| Non interest income | 1,515 | 1,114 | 1,576 | -4 | 36 | 1,515 | 1,576 | -4 |
| Net income | 4,800 | 4,279 | 4,983 | -4 | 12 | 4,800 | 4,983 | -4 |
| OPEX | (2,135) | (2,007) | (2,219) | -4 | 6 | (2,135) | (2,219) | -4 |
| PPOP | 2,665 | 2,272 | 2,764 | -4 | 17 | 2,665 | 2,764 | -4 |
| Provisions | (490) | (228) | (749) | -35 | 115 | (490) | (749) | -35 |
| Core PBT | 2,175 | 2,044 | 2,015 | 8 | 6 | 2,175 | 2,015 | 8 |
| Core NP | 1,681 | 1,573 | 1,581 | 6 | 7 | 1,681 | 1,581 | 6 |
| Reported PBT | 2,174 | 2,044 | 2,015 | 8 | 6 | 2,174 | 2,015 | 8 |
| Reported NP | 1,681 | 1,573 | 1,581 | 6 | 7 | 1,681 | 1,581 | 6 |
| Total loans (IDR tr) | 212 | 213 | 201 | 5.2 | -0.8 | | | |
| Total deposits (IDR tr) | 248 | 236 | 240 | 3.3 | 5.2 | | | |
| CASA (IDR tr) | 160 | 151 | 147 | 8.9 | 6.3 | | | |
| Ratios (%) | 1Q FY24 | 4Q FY23 | 1Q FY23 | Yoy (ppts) | QoQ (ppts) | 3M FY24 | 3M FY23 | Yoy (ppts) |
| ROE (Ann.) | 14.4 | 13.9 | 15.1 | -0.7 | 0.5 | 14.4 | 15.1 | -0.7 |
| NIM (Reported) | 4.20 | 4.05 | 4.71 | -0.51 | 0.15 | 4.20 | 4.71 | -0.51 |
| NOII/Net income | 31.6 | 26.0 | 31.6 | -0.1 | 5.5 | 31.6 | 31.6 | -0.1 |
| Cost/Income | 44.5 | 46.9 | 44.5 | -0.1 | -2.4 | 44.5 | 44.5 | -0.1 |
| CoC (Ann.) (bps) | 82 | 54 | 150 | -68 | 28 | 82 | 150 | -68 |
| Gross NPL ratio | 2.10 | 2.00 | 2.60 | -0.50 | 0.10 | | | |
| G. impairment ratio | 4.80 | 5.10 | 6.20 | -1.40 | -0.30 | | | |
| Loan loss coverage | 257 | 292 | 254 | 4 | -35 | | | |
| CASA ratio | 64.6 | 63.9 | 61.2 | 3.3 | 0.7 | | | |
| L/D ratio (Reported) | 84.2 | 89.3 | 82.2 | 2.0 | -5.1 | | | |
| CAR - Tier 1 | 24.5 | 22.9 | 20.3 | 4.2 | 1.6 | | | |

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) | FY22 | FY23 | FY24F | FY25F | FY26F |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Interest income | 18,646 | 25,111 | 21,837 | 22,513 | 23,099 |
| Interest expense | (7,016) | (14,027) | (9,120) | (9,120) | (9,120) |
| Net interest income | 11,630 | 11,084 | 12,717 | 13,393 | 13,979 |
| Islamic banking inc. | 4,000 | 4,260 | 3,756 | 3,956 | 4,129 |
| Other operating inc. | 4,208 | 5,670 | 5,903 | 6,195 | 6,491 |
| Net income | 19,838 | 21,014 | 22,377 | 23,544 | 24,599 |
| OPEX | (9,346) | (9,865) | (10,405) | (10,712) | (11,193) |
| PPOP | 10,492 | 11,149 | 11,971 | 12,831 | 13,407 |
| Loan allowances | (1,953) | (1,534) | (1,590) | (1,685) | (1,786) |
| Other allowances | (209) | (57) | (275) | (464) | (451) |
| JV & Associates | 40 | (17) | 123 | 131 | 137 |
| PBT | 8,371 | 9,541 | 10,229 | 10,813 | 11,307 |
| Tax & zakat | (2,778) | (2,379) | (2,557) | (2,703) | (2,827) |
| NCI | (153) | (181) | (192) | (203) | (212) |
| Reported NP | 5,440 | 6,981 | 7,480 | 7,907 | 8,268 |
| Core NP | 5,542 | 6,981 | 7,480 | 7,907 | 8,268 |
| Total NII | 15,158 | 14,626 | 16,098 | 16,953 | 17,695 |
| Total NOII | 4,680 | 6,388 | 6,279 | 6,590 | 6,904 |

BALANCE SHEET

| FYE Dec (RM m) | FY22 | FY23 | FY24F | FY25F | FY26F |
|----------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash & ST funds | 47,105 | 37,980 | 39,011 | 40,227 | 39,953 |
| Investment securities | 156,410 | 198,844 | 199,893 | 201,251 | 202,932 |
| Net loans | 394,557 | 429,450 | 456,007 | 483,381 | 512,397 |
| Other IEAs | 9,751 | 9,708 | 10,873 | 12,177 | 13,639 |
| Non-IEAs | 58,897 | 57,590 | 62,538 | 68,240 | 76,051 |
| Total assets | 666,721 | 733,572 | 768,321 | 805,276 | 844,971 |
| Customer deposits | 432,950 | 463,442 | 491,712 | 521,706 | 553,531 |
| Other IBLs | 115,648 | 148,148 | 148,699 | 149,797 | 151,464 |
| Non-IBLs | 54,340 | 52,143 | 53,751 | 55,519 | 57,464 |
| Total liabilities | 602,937 | 663,733 | 694,162 | 727,022 | 762,459 |
| Share capital | 29,095 | 29,095 | 29,095 | 29,095 | 29,095 |
| Reserves | 33,397 | 39,232 | 43,486 | 47,503 | 51,683 |
| Shareholders' funds | 62,491 | 68,327 | 72,581 | 76,598 | 80,778 |
| Perpetual pref. shares | 200 | 200 | 200 | 200 | 200 |
| NCI | 1,093 | 1,312 | 1,379 | 1,455 | 1,535 |
| Total equity | 63,784 | 69,839 | 74,160 | 78,253 | 82,513 |
| Total L&E | 666,721 | 733,572 | 768,321 | 805,276 | 844,971 |
| Total IEAs | 607,824 | 675,982 | 705,783 | 737,036 | 768,920 |
| Total IBLs | 548,598 | 611,590 | 640,411 | 671,503 | 704,994 |
| Gross loans | 407,057 | 440,922 | 467,377 | 495,420 | 525,145 |
| CASA | 182,292 | 203,077 | 206,519 | 213,900 | 226,948 |

FINANCIAL RATIOS

| FYE Dec (RM m) | FY22 | FY23 | FY24F | FY25F | FY26F |
|--------------------------|------------|-------------|-------------|-------------|-------------|
| Interest (%) | | | | | |
| NIM | 2.56 | 2.28 | 2.33 | 2.35 | 2.35 |
| Return on IEAs | 3.15 | 3.91 | 3.16 | 3.12 | 3.07 |
| Cost of funds | 1.30 | 2.42 | 1.46 | 1.39 | 1.33 |
| Net interest spread | 1.84 | 1.49 | 1.70 | 1.73 | 1.74 |
| Profitability (%) | | | | | |
| ROE | 9.1 | 10.7 | 10.6 | 10.6 | 10.5 |
| ROA | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 |
| NOII/Net income | 23.6 | 30.4 | 28.1 | 28.0 | 28.1 |
| Effective tax rate | 33.2 | 24.9 | 25.0 | 25.0 | 25.0 |
| Cost/Income | 47.1 | 46.9 | 46.5 | 45.5 | 45.5 |
| Liquidity (%) | | | | | |
| Loan/Deposit | 91.1 | 92.7 | 92.7 | 92.7 | 92.6 |
| CASA ratio | 42.1 | 43.8 | 42.0 | 41.0 | 41.0 |
| Asset Quality (%) | | | | | |
| GIL ratio | 3.27 | 2.67 | 2.50 | 2.50 | 2.50 |
| LLC ratio | 93 | 97 | 95 | 95 | 95 |
| LLC (w. reserves) | 96 | 106 | 105 | 104 | 104 |
| Net CC (bps) | 50 | 36 | 35 | 35 | 35 |
| Capital (%) | | | | | |
| CET 1 | 14.5 | 14.5 | 14.2 | 14.2 | 14.0 |
| Tier 1 capital | 15.4 | 15.1 | 14.8 | 14.8 | 14.6 |
| Total capital | 18.5 | 18.2 | 17.9 | 17.9 | 17.7 |
| Growth (%) | | | | | |
| Total NII | 8.6 | -3.5 | 10.1 | 5.3 | 4.4 |
| Total NOII | -15.8 | 36.5 | -1.7 | 5.0 | 4.8 |
| Net income | 1.7 | 5.9 | 6.5 | 5.2 | 4.5 |
| OPEX | -0.8 | 5.6 | 5.5 | 3.0 | 4.5 |
| Core NP | 19.2 | 26.0 | 7.2 | 5.7 | 4.6 |
| Gross loans | 7.7 | 8.3 | 6.0 | 6.0 | 6.0 |
| Customer deposits | 2.5 | 7.0 | 6.1 | 6.1 | 6.1 |
| CASA | -2.0 | 11.4 | 1.7 | 3.6 | 6.1 |
| Valuation metrics | | | | | |
| Core EPS (sen) | 51.8 | 65.3 | 69.9 | 73.9 | 77.3 |
| Gross DPS (sen) | 26.0 | 43.0 | 37.5 | 38.7 | 39.5 |
| Div payout (%) | 50 | 66 | 55 | 55 | 55 |
| BVPS (RM) | 5.8 | 6.4 | 6.8 | 7.2 | 7.6 |
| Core P/E (x) | 12.8 | 10.1 | 9.5 | 8.9 | 8.5 |
| Div yield (%) | 3.9 | 6.5 | 5.7 | 5.9 | 6.0 |
| 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