

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

Niaga 2QFY24: NIM Well Maintained

KEY INVESTMENT HIGHLIGHTS

- **Management's tone: Optimistic**
- **Core themes: (a) Further cost takeout expected, (b) Slight optimism on the NIM front, (c) CoC will likely overperform guidance**
- **Forecasts unchanged**
- **Maintain BUY | Unchanged TP of RM8.12 | based on an unchanged FY25F P/BV of 1.15x**

Verdict: High certainty of special dividend payout warrant better valuations. Despite management having some reservations, they seem confident in achieving FY24 ROE target.

Yays	<ol style="list-style-type: none"> Digital initiatives are slowly but surely ramping up. Excellent growth potential from regional exposure. Dividend yields are strong, with the possibility of special payout.
Nays	<ol style="list-style-type: none"> In future, we may see some NIM-related weakness about lower loan yields. Thailand is still amid its turnaround plans.
OKs	<ol style="list-style-type: none"> Limited room for further ROE optimisation. Further cost pressure from CA adjustments is expected. Valuations less attractive than before – but its high ROE (seemingly sustainable) and excellent dividend payout justifies room for further upside rerating.

CIMB Niaga has released its 2QFY24 results. Here are some briefing highlights:

Income Statement

2QFY24's Core NP of IDR1.73tr grew by +3%qoq. This was largely due to a huge reduction in provisions (2QFY23's was exceptionally heavy) offsetting weakness in NOII and NII.

1HFY24's Core NP of IDR3.41tr grew by +5%yoy. The core driver was reduced provisions, though slightly improved NII and NOII results helped offset increasing OPEX and taxes.

2QFY24's NIM rose by +2bps qoq to 4.22%. The increase was namely due to improved contributions by marketable securities, which offset increases in COF and tightening loan yields (note that the reduction in loan yields was due to disproportionately high growth in USD loans – which tend to be priced cheaper – as opposed to the company cutting rates).

Maintain BUY
Unchanged Target Price: RM8.12

RETURN STATISTICS

Price @ 30 July 2024 (RM)	7.21
Expected share price return (%)	+12.7
Expected dividend yield (%)	+5.5
Expected total return (%)	+18.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.7	3.6
3 months	5.7	6.1
12 months	32.1	18.1

INVESTMENT STATISTICS

FYE Dec	FY24F	FY25F	FY26F
Core NP (RM m)	7,509	8,054	8,359
CNP growth (%)	8	7	4
Div yield (%)	6.6	5.5	5.5
Gross DPS (sen)	47.9	39.4	40.0
P/BV (x)	1.1	1.0	1.0
BVPS (RM)	6.7	7.1	7.5
ROE (%)	10.7	11.0	10.8
MIDF/Street CNP (%)	99	99	97

KEY STATISTICS

FBM KLCI	1,611.94
Issue shares (m)	10,664.8
Estimated free float (%)	44.8
Market Capitalisation (RM'm)	76,930.0
52-wk price range	RM5.32 - RM7.25
3-mth avg daily volume (m)	20.7
3-mth avg daily value (RM'm)	142.5
Top Shareholders (%)	
Khazanah Nasional Bhd	21.6
EPF Board	14.7
Amanah Saham Nasional Bhd	9.9

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Regardless, it seems that NIMs will not dip much further. Management remains confident in achieving their 4.2-4.4% guidance (1HFY24's value of 4.21% is so close to the lower bound that there is little room for further reduction). Furthermore (1) Current account growth is still strong, as the Group begins to tap into the non-retail base, (2) The Group has successfully repriced some of its loans (on average, 20-50bps) – more will follow suit, (3) Excellent bond yield should continue providing a windfall to non-loan yields. This seems to balance out weaknesses in savings account growth, which was largely due to the mass affluent segment switching to higher-yielding products following the rate hike.

Still further room for OPEX optimisation and NPL sales. Further cost takeouts are expected. While most of the low-hanging fruit in NPL sales are gone, the Group is confident that there's enough juice to last 1-2 more years. Fee income outlook remains solid.

Balance Sheet

Loan growth recovers to strong +2.6%qoq growth, following last quarter's contraction. The main driver this time around was corporate loans – which saw +5.5%qoq.

No asset quality issues expected – but we could see larger provisioning charges in 2HFY24. CoC for 1HFY24 was 89bps, still below the FY24 target of 1.0-1.1%. As most impairment ratios seem healthy (and nothing dramatic is expected ahead), we think Niaga has a large potential to overperform on the CoC front – we expect pretty moderate 2HFY24 charges.

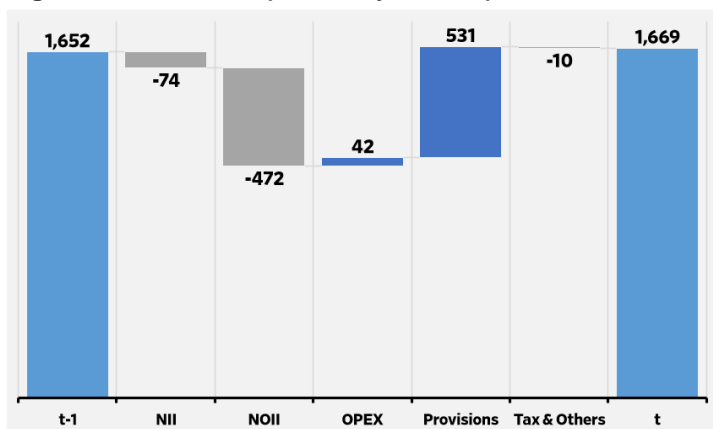
Forecasts unchanged. We make no changes to our earnings forecast.

Key downside risks. (1) Poor NOII performance, (2) Weaker-than-expected NIM performance, (3) Weak loan growth.

Maintain BUY call: Unchanged GGM-TP of RM 8.12. The TP is based on an unchanged FY25F P/BV of 1.15x.

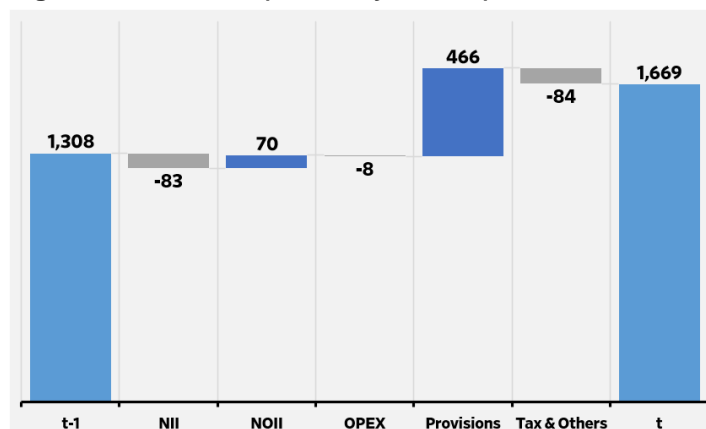
(GGM assumptions: FY25F ROE of 11.0%, LTG of 3.5% & COE of 10.0%)

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



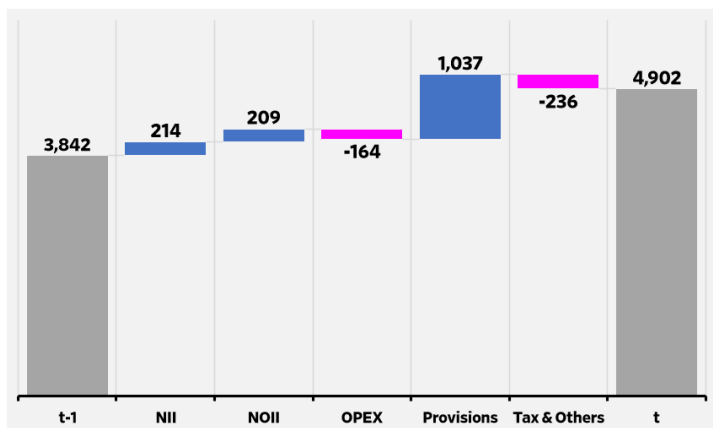
Source: CIMB, MIDFR

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 FY24	1Q FY24	2Q FY23	Yoy (%)	Qoq (%)	1H FY24	1H FY23	Yoy (%)
Net interest income	3,371	3,285	3,427	-2	3	6,656	6,834	-3
Non interest income	1,414	1,515	1,608	-12	-7	2,929	3,184	-8
Net income	4,785	4,800	5,035	-5	-0	9,585	10,018	-4
OPEX	(2,074)	(2,135)	(2,119)	-2	-3	(4,209)	(4,338)	-3
PPOP	2,711	2,665	2,916	-7	2	5,376	5,680	-5
Provisions	(492)	(490)	(780)	-37	0	(982)	(1,529)	-36
Core PBT	2,219	2,175	2,136	4	2	4,394	4,151	6
Core NP	1,726	1,681	1,652	4	3	3,407	3,233	5
Reported PBT	2,218	2,174	2,136	4	2	4,392	4,151	6
Reported NP	1,726	1,681	1,652	4	3	3,407	3,233	5
Total loans (IDR tr)	217	212	206	5.4	2.6			
Total deposits (IDR tr)	250	248	236	6.0	0.7			
CASA (IDR tr)	163	160	152	7.4	1.7			
Ratios (%)	2Q FY24	1Q FY24	2Q FY23	Yoy (ppts)	QoQ (ppts)	1H FY24	1H FY23	Yoy (ppts)
ROE (Ann.)	15.2	14.4	15.8	-0.6	0.8	14.8	15.4	-0.6
NIM (Reported)	4.22	4.20	4.52	-0.30	0.02	4.21	4.61	-0.40
NOII/Net income	29.6	31.6	31.9	-2.4	-2.0	30.6	31.8	-1.2
Cost/Income	43.3	44.5	42.1	1.3	-1.1	43.9	43.3	0.6
CoC (Ann.) (bps)	96	82	180	-84	14	89	160	-71
Gross NPL ratio	2.50	2.10	2.50	0.00	0.40			
G. impairment ratio	4.70	4.80	5.90	-1.20	-0.10			
Loan loss coverage	253	257	262	-9	-4			
CASA ratio	65.2	64.6	64.3	0.9	0.6			
L/D ratio (Reported)	85.7	84.2	86.0	-0.3	1.5			
CAR - Tier 1	22.7	24.5	23.2	-0.5	-1.8			

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)	(303)	(366)
JV & Associates	40	(17)	162	170	176
PBT	8,371	9,541	10,268	11,013	11,431
Tax & zakat	(2,778)	(2,379)	(2,567)	(2,753)	(2,858)
NCI	(153)	(181)	(193)	(207)	(214)
Reported NP	5,440	6,981	7,509	8,054	8,359
Core NP	5,542	6,981	7,509	8,054	8,359
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	61,404	67,172	75,025
Total assets	666,721	733,572	767,187	804,208	843,945
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	42,373	46,456	50,676
Shareholders' funds	62,491	68,327	71,467	75,550	79,771
Perpetual pref. shares	200	200	200	200	200
NCI	1,093	1,312	1,358	1,435	1,516
Total equity	63,784	69,839	73,025	77,186	81,487
Total L&E	666,721	733,572	767,187	804,208	843,945
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	10.7	11.0	10.8
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	7.6	7.3	3.8
Valuation metrics					
Core EPS (sen)	51.8	65.3	70.2	75.3	78.2
Gross DPS (sen)	26.0	43.0	47.9	39.4	40.0
Div payout (%)	50	66	70	55	55
BVPS (RM)	5.8	6.4	6.7	7.1	7.5
Core P/E (x)	13.9	11.0	10.3	9.6	9.2
Div yield (%)	3.6	6.0	6.6	5.5	5.5
P/BV (x)	1.2	1.1	1.1	1.0	1.0

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