

20 February 2020

# CIMB Group Holdings Bhd

## CIMB Niaga: Consumer Loans Led

By Ahmad Ramzani Ramli | [ahmadramzani@kenanga.com.my](mailto:ahmadramzani@kenanga.com.my)

CIMB Niaga's FY19 CNP of IDR3.6t is within market expectation, accounting for 98% of consensus estimate as both top-line and asset quality improved. The Group will likely benefit from both consumer and MSME loans traction in the coming months with accommodative interest rates prevailing and improving asset quality. We maintain our earnings estimates pending the Group's FY19 results later this month. Maintain TP at RM6.45 and OUTPERFORM call as valuations are undemanding.

**Within guidance.** CIMB Niaga, a 92.5% subsidiary of CIMB Group recorded a core net profit (CNP) of IDR3.64t (+5% YoY) for FY19 accounting for 98% of consensus estimate. Stripping off the one-off MSS cost of IDR359b, CNP would have jumped 15% YoY to IDR4.0t.

**Better-than-expected NIM with improving asset quality.** YoY, top-line was up 15% to IDR19.0t driven by strong Non-Interest Income (NOII); +43% to IDR6.4t and NII (+5% to IDR12.6t). The stellar NOII was underpinned by *Recoveries* and *Syndication Fees* (+75% and +50%, respectively). NII was driven by improving loans (130bps to +3.1%) and reported NIM of 5.31% (+19bps) – well above guidance of >5% (due to repricing of assets since March 2019 – mitigating the interest rate cut in 4Q19) with support from a strong CASA (+8%) contributing to 55% of deposits. Loans were driven by the Consumer space (+11% and 28% contribution) and Corporate Banking (+3% and 37% contribution). Cost-to-Income (CIR) shed 3ppt to 45% despite OPEX up by 8% due to the strong top-line. Asset quality improved as GIL fell 75bps to 2.79% (mainly due to NPL sale) while credit charge remained stable at 174bps.

**Strongest quarter.** QoQ, CNP registered at IDR1.32t (+25%) – its strongest quarter despite top-line falling 7% mitigated by falling opex and impairment allowances (-17% and -15% respectively). Falling top-line was underpinned by poor performances from NOII (-15%) and NII (-2%). Loans improved by 70bps to +1.3% with falling NIM (reported; -6bps) dragged NII – aggravated by the interest rate cuts in 4QFY19. The accommodative interest rates are a boon as both consumer and Micro & Small Medium Enterprise (MSME) banking improved at +3.1% and +2.4%, respectively (vs. Commercial and Corporates at -1.6% and 0.7% respectively). Asset quality was mixed as GIL saw 17bps uptick to 2.78% with credit charge falling 31bps to 1.66%.

**Management guided for a strong FY2020;** underpinned by: (i) strong loans (+6-8%), (ii) stable NIM at >5%, (iii) stable credit charge at ~175bps, and (iv) CIR of <49%. We believe the guidance is doable given the focus on consumer and MSME loans with the benign interest rate environment and corporate loans traction once infra spending gets underway. As the bank focuses on the mass affluent segment, accommodative interest rates will spur consumer banking with the bank guiding double-digit growth in auto loans (FY19: +4% YoY). The focus on consumer is supported by improving asset quality as NPLs for consumer declined 50bps YoY to 2.0% with MSME stable at 3.0%. NIM will be supported by its strong CASA coming from retail segment with the improvement in CASA in tandem with stellar performance (+136% YoY) of users via its digital platform.

**Forecasts unchanged for the Group as Niaga's results came within expectations and guidance.** Historically Niaga's contribution to the Group is at ~20%. 1HFY19 PBT contribution was at 19%. The Group's FY19 results are expected end of the month; thus, FY19E NP of RM4.7b is maintained for now.

**TP maintained at RM6.45** based on a FY20E target PBV of 1.06x (5-year mean). This is justified as we have been conservative in our assumptions and loans activities are expected to gain traction from both Malaysia and Indonesia going into 2020. Furthermore, the low interest rate environment will be supportive of loans coming from the consumer space. Hence, we reiterate our **OUTPERFORM** call.

# OUTPERFORM ↔

Price : RM4.95  
Target Price : RM6.45 ↔

### Share Price Performance



KLCI	1,534.16
YTD KLCI chg	-3.4%
YTD stock price chg	-3.9%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	CIMB MK Equity
Market Cap (RM m)	49,118.7
Shares Outstanding	9,923.0
52-week range (H)	5.89
52-week range (L)	4.82
3-mth avg daily vol:	8,313,936
Free Float	45%
Beta	1.3

### Major Shareholders

Khazanah Nasional Bhd	23.8%
Employees Provident Fund	13.0%
Kumpulan Wang Persaraan	6.4%

### Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Net interest inc.	9,634	10,006	10,450
Islamic banking inc.	2,610	2,680	2,908
Non-interest inc.	4,046	4,305	4,369
<b>Total Income</b>	<b>16,291</b>	<b>16,990</b>	<b>17,726</b>
Pre-tax profit	7,201	6,419	6,682
<b>Net profit (NP)</b>	<b>5,584</b>	<b>4,702</b>	<b>4,894</b>
Consensus NP		4,881	5,135
Earnings Revision (%)			
EPS (RM)	59.7	48.6	48.9
EPS growth (%)	18.2	-18.6	0.6
DPS (RM)	25.0	22.6	22.8
BV/share (RM)	5.51	5.76	6.13
NTA/share (RM)	4.5	4.7	5.0
ROE (%)	11.2	8.8	8.4
PER (x)	8.3	10.2	10.1
Price/Book (x)	1.1	1.1	1.0
Price/NTA (x)	0.9	0.9	0.8
Dividend yield (%)	5.1	4.6	4.6

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**Other salient points.**

**Risks to our call are:** (i) higher-than-expected margin squeeze, (ii) lower-than-expected loans and deposits growth, (iii) worse-than-expected deterioration in asset quality, (iv) further slowdown in capital market activities, and (v) adverse currency fluctuations.

<b>Results Highlight</b>								
<b>Y/E : 31 Dec (IDR b)</b>	<b>4Q19</b>	<b>3Q19</b>	<b>QoQ Chg.</b>	<b>4Q18</b>	<b>YoY Chg.</b>	<b>12M19</b>	<b>12M18</b>	<b>YoY Chg.</b>
Net Interest Income	3,096.1	3,155.8	-1.9%	2,999.4	3.2%	12,568.0	12,012.0	4.6%
Non Interest Income	1,530.7	1,800.3	-15.0%	825.9	85.3%	6,402.0	4,483.8	42.8%
<b>Total Income</b>	<b>4,626.7</b>	<b>4,956.1</b>	<b>-6.6%</b>	<b>3,825.3</b>	<b>21.0%</b>	<b>18,970.0</b>	<b>16,495.8</b>	<b>15.0%</b>
Operating Expenses	(2,058.0)	(2,472.8)	-16.8%	(2,024.2)	1.7%	(8,634.5)	(8,018.9)	7.7%
(Allowances)/write-backs	(793.4)	(934.6)	-15.1%	(859.1)	-7.7%	(3,323.4)	(3,277.6)	1.4%
(Other Impairments)/Writebacks	8.6	(7.1)	-219.9%	(18.1)	-147.2%	(1.6)	(40.3)	-96.0%
Other operating gains/(losses)	(495.1)	(570.8)	-13.3%	302.2	-263.8%	(2,076.9)	(364.4)	469.9%
<b>Operating Profit</b>	<b>1,288.8</b>	<b>970.8</b>	<b>32.8%</b>	<b>1,226.1</b>	<b>5.1%</b>	<b>4,933.6</b>	<b>4,794.6</b>	<b>2.9%</b>
Non-operating gains/(losses)	9.5	7.1	34.6%	(1.3)	-807.9%	20.1	56.3	-64.3%
<b>Pre-Tax Profit</b>	<b>1,298.4</b>	<b>977.9</b>	<b>32.8%</b>	<b>1,224.8</b>	<b>6.0%</b>	<b>4,953.7</b>	<b>4,850.8</b>	<b>2.1%</b>
Tax & Minority Interest	(332.9)	(277.1)	20.1%	(334.2)	-0.4%	(1,311.0)	(1,368.4)	-4.2%
<b>Net Profit</b>	<b>1,324.5</b>	<b>1,059.8</b>	<b>25.0%</b>	<b>890.6</b>	<b>48.7%</b>	<b>3,642.8</b>	<b>3,482.4</b>	<b>4.6%</b>
<b>EPS (IDR)</b>	<b>53.2</b>	<b>42.5</b>	<b>25.0%</b>	<b>35.7</b>	<b>48.8%</b>	<b>146.2</b>	<b>139.1</b>	<b>5.1%</b>
Gross Loans	194,240.0	191,670.0	1.3%	188,470.0	3.1%	194,240.0	188,470.0	3.1%
Net Loans	187,668.0	186,140.0	0.8%	182,370.0	2.9%	187,668.0	182,370.0	2.9%
Total Customer Deposits	195,600.0	163,739.5	19.5%	190,750.0	2.5%	195,600.0	190,750.0	2.5%
CASA / Low Cost Deposits	108,260.0	93,042.1	16.4%	100,350.0	7.9%	108,260.0	100,350.0	7.9%
Book value/share (IDR)	1,737.1	1,695.6	2.4%	1,588.3	9.4%	1,737.1	1,588.3	9.4%
NTA/share (IDR)	1,737.1	1,695.6	2.4%	1,588.3	9.4%	1,737.1	1,588.3	9.4%
Est. Annualised Net Interest Margin	5.02%	5.19%		4.98%		5.09%	4.99%	
Cost-to-Income Ratio	44.5%	49.9%		52.9%		45.5%	48.6%	
Est. Annualised Credit Charge (Writeback) Ratio	1.66%	1.97%		1.87%		1.74%	1.78%	
Effective Tax Rate	25.6%	28.3%		27.3%		26.5%	28.2%	
G.Loan-to-Deposit Ratio	99.3%	117.1%		98.8%		99.3%	98.8%	
N.Loan-to-Deposit Ratio	95.9%	113.7%		95.6%		95.9%	95.6%	
% of CASA to Total Customer Deposits	55.3%	56.8%		52.6%		55.3%	52.6%	
Total Allowances-to-Loans	3.38%	2.89%		3.24%		3.38%	3.24%	
Gross Impaired Loans Ratio	2.79%	2.62%		3.54%		2.79%	3.54%	
Loan Loss Coverage	121.3%	110.1%		91.4%		121.3%	91.4%	
Tier 1 Capital	20.2%	20.0%		18.4%		20.2%	18.4%	
Total Capital	21.5%	21.2%		19.7%		21.5%	19.7%	
Est. Annualised ROE	12.6%	10.3%		9.3%		8.7%	9.1%	

Source: Company, Kenanga Research

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### Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>BANKING</b>																	
AFFIN BANK BHD	1.83	3,634.4	N	12/2019	5.7%	3.0%	12.5%	15.0%	7.2	6.4	5.6	0.4	0.4	6.4%	3.0%	2.45	OP
ALLIANCE BANK MALAYSIA BHD	2.40	3,715.5	N	03/2020	5.6%	8.6%	-9.4%	19.0%	7.5	6.9	7.6	0.7	0.6	8.3%	6.9%	3.45	OP
AMMB HOLDINGS BHD	3.88	11,687.0	N	03/2020	10.6%	4.6%	3.0%	1.5%	7.8	7.5	7.4	0.6	0.6	8.1%	5.2%	4.75	OP
BIMB HOLDINGS BHD	3.87	6,937.6	Y	12/2019	11.7%	6.1%	15.1%	7.6%	10.0	9.0	8.7	1.4	1.3	14.9%	4.5%	4.95	OP
CIMB GROUP HOLDINGS BHD	4.95	49,118.7	N	12/2019	4.6%	5.0%	-15.8%	4.1%	8.3	10.2	10.1	0.9	0.8	8.6%	4.6%	6.45	OP
HONG LEONG BANK BERHAD	15.34	33,252.8	N	06/2020	4.1%	5.1%	1.0%	0.6%	11.9	11.8	11.7	1.3	1.2	10.8%	3.3%	18.90	OP
MALAYAN BANKING BHD	8.40	94,427.4	N	12/2019	3.8%	4.3%	-2.2%	4.7%	11.4	11.7	11.2	1.2	1.1	9.7%	6.7%	9.70	OP
MALAYSIA BUILDING SOCIETY	0.79	5,270.0	N	12/2019	-4.2%	4.5%	-17.8%	8.6%	7.8	9.5	9.1	0.6	0.6	6.7%	6.4%	1.10	OP
PUBLIC BANK BERHAD	17.94	69,645.6	N	12/2019	3.9%	5.2%	-0.1%	3.4%	12.4	12.4	12.0	1.7	1.7	13.7%	3.8%	22.10	OP
RHB BANK BHD	5.75	23,057.8	N	12/2019	6.0%	4.8%	4.1%	5.7%	10.0	9.6	9.1	1.0	0.9	9.9%	3.7%	6.05	MP
<b>Simple Average</b>					<b>5.2%</b>	<b>5.1%</b>	<b>-1.0%</b>	<b>7.0%</b>	<b>9.4</b>	<b>9.5</b>	<b>9.3</b>	<b>1.0</b>	<b>0.9</b>	<b>9.7%</b>	<b>4.8%</b>		

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

