

29 September 2022

CIMB Group Holdings

Relinquishing CGS-CIMB Securities

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We maintain our GGM-derived PBV TP of RM6.35 (COE: 11.7%, TG: 2.0%, ROE: 10.5%) and OP call. CIMB appears to be releasing its remaining stake 25.01% in CGS-CIMB Securities to China Galaxy Securities (CGS) by January 2023, as reported. While no transactional value has been disclosed, we estimate the exercise will relieve CIMB of associate contributions of c.RM20m in FY22 and hence will not materially impact the group's long-term earnings. CIMB is one of our 4QCY22 Top Picks.

End of a 5-year partnership. As reported by The Edge Singapore yesterday, CGS-CIMB Securities CEO confirmed that CGS will be taking full control of the group by January 2023, indicating that CIMB would be disposing its remaining 25.01% stake. It appears that the disposal would be conducted via call and put option subscriptions although further details in terms of price and valuations are lacking. We estimate that it could be close to an indicative value of RM270m, based on an applied 1.05x PBV (also close to recent industry deals) on the past disposal and subject to USD rates.

Recall that CIMB had on 7 December 2021 disposed 24.99% of its stake in CGS-CIMB Securities together with its 25% holdings in CGS-CIMB Holdings to China Galaxy International for a consideration of USD170.5m. That said, the entire disposal is not translatable to CIMB's complete exit from the stockbroking business as collaborative ventures with CGS could still be on the table.

Natural course of action. It was not surprising for CIMB group to eventually dispose its holdings in the 2018 joint venture-turned-associate, given its recent release of control of the combined entity which was initially intended to facilitate greater access to the Chinese market. We reckon that the timing of the move could be ideal in a softer equities trading landscape as the CIMB group could reallocate resources to higher yielding operations.

Less appealing space. This move is not likely the last we see in terms of the disposal and consolidation of equities-related businesses for CIMB. We had seen ABMB entering a conditional sales agreement of its entire stockbroking business with Philip Capital in December 2021 and AFFIN recently monetising its stake in Affin Hwang Asset Management in August 2022 to reinvest into its core banking operations. The current downturn in equities markets may further causes financial institutions to reconsider their position in the markets, especially with looming macro uncertainties giving rise to further depression in treasury activities.

Post updates, we leave our FY22F/FY23F assumptions unchanged for now, pending the formal completion of the abovementioned transaction. Fundamentally, we had projected CGS-CIMB Securities, being the key associate earnings contributor, to generate c.RM20m in FY22. Additionally, the indicative disposal gains of RM270m in FY23F would only affect reported earnings by 4%.

Maintain OUTPERFORM and TP of RM6.35. Our TP is based on an unchanged GGM-derived PBV of 0.88x (COE: 11.7%, TG: 2.0%, ROE: 10.5%) with an applied 5% premium granted by CIMB's 4-star ESG ranking thanks to headways in green financing. Fundamentally, the stock is supported by its regional diversification, especially in terms of NOII which most of its peers lack. CIMB's return to double-digit ROE could be indicative of its prospects, led by better forward earnings growth (26% vs. industry average of 22%) while offering attractive dividend yields (6%) in the medium-term. **CIMB is one of our 4QCY22 Top Picks.**

OUTPERFORM ↔

Price : RM5.11
Target Price : RM6.35 ↔

Share Price Performance



KLCI 1,401.89
YTD KLCI chg -10.6%
YTD stock price chg -6.2%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	CIMB MK Equity
Market Cap (RM m)	53,523.4
Shares Outstanding	10,474.3
52-week range (H)	5.71
52-week range (L)	4.70
3-mth avg daily vol	11,373,230
Free Float	41%
Beta	1.2

Major Shareholders

Khazanah Nasional Bhd	24.8%
Employees Provident Fund	15.3%
Amanah Saham Nasional	10.3%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Net interest income	14,470	15,302	15,885
Non-interest income	3,955	4,109	5,040
Total income	18,425	19,411	20,925
Operating expenses	-9,419	-9,513	-9,703
Loan impairment	-4,373	-2,358	-2,565
Pre-tax profit	5,789	7,640	8,756
PATAMI	4,295	5,234	6,607
Core PATAMI	4,648	5,234	6,607
Consensus NP		5,331	6,369
Earnings revision		0.0%	0.0%
Core EPS (RM)	0.46	0.52	0.66
EPS growth (%)	289	13	26
NDPS (RM)	0.23	0.26	0.32
BV/share (RM)	5.87	6.14	6.47
NTA/share (RM)	5.04	5.31	5.65
ROE (%)	7.5	8.7	10.5
PER (x)	11.0	9.8	7.8
P/BV (x)	0.87	0.83	0.79
Net Div. Yield (%)	4.5	5.1	6.3

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Risks to our call include: (i) higher-than-expected margin squeeze, (ii) lower-than-expected loans growth, (iii) worse-than-expected deterioration in asset quality, (iv) slowdown in capital market activities, (v) unfavourable currency fluctuations, and (vi) changes to OPR.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	FY Dec	2019A	2020A	2021A	2022F	2023F
Net interest income	13,125	13,378	14,470	15,302	15,885	Growth					
Non-interest income	4,419	4,033	3,955	4,109	5,040	Net interest income	7.2%	1.9%	8.2%	5.8%	3.8%
Total income	17,544	17,410	18,425	19,411	20,925	Non-interest income	9.2%	-8.8%	-1.9%	3.9%	22.7%
Operating expenses	-9,873	-8,977	-9,419	-9,513	-9,703	Total income	7.7%	-0.8%	5.8%	5.4%	7.8%
PPOP	7,671	8,433	9,006	9,898	11,221	Operating expenses	14.1%	-9.1%	4.9%	1.0%	2.0%
Loan impairments	-1,639	-5,342	-3,047	-2,158	-2,115	PPOP	0.5%	9.9%	6.8%	9.9%	13.4%
Other impairments	-340	-1,456	-1,325	-200	-450	Loan impairment	14.4%	226.0%	-43.0%	-29.2%	-2.0%
Associates	31	116	1,218	100	100	Pre-tax profit	-17.0%	-74.4%	278.3%	32.0%	14.6%
Pre-tax profit	5,975	1,530	5,789	7,640	8,756	PATAMI	-18.3%	-73.8%	259.6%	21.9%	26.2%
Tax and zakat	-1,520	-384	-1,397	-2,299	-2,014	Core PATAMI	-18.3%	-73.8%	289.2%	12.6%	26.2%
Minority interest	104	48	-97	-107	-135	Gross loans	6.9%	-1.8%	3.0%	7.0%	5.1%
PATAMI	4,560	1,194	4,295	5,234	6,607	Customer deposits	6.0%	2.7%	4.8%	2.7%	4.1%
Core PATAMI	4,560	1,194	4,648	5,234	6,607						
Balance Sheet						Operating metrics					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	Est avg asset yield	5.06%	4.24%	3.67%	3.85%	4.07%
Cash & ST funds	75,902	82,277	85,949	84,019	86,565	Est avg funding cost	2.78%	2.02%	1.40%	1.61%	1.90%
Investment securities	85,198	120,171	128,439	142,240	146,550	Est NIM	2.54%	2.43%	2.50%	2.52%	2.49%
Loans and financing	360,340	353,916	364,685	390,145	410,018	Cost-to-Income ratio	55.5%	52.2%	51.3%	49.0%	46.4%
Other assets	42,263	36,246	34,533	32,978	32,755	Credit cost (bps)	47.0	149.6	72.7	57.2	52.9
Intangible assets	9,543	9,745	8,302	8,302	8,302	Loan-to-deposit ratio	91.8%	87.8%	86.3%	90.0%	90.9%
Total Assets	573,246	602,355	621,907	657,684	684,189	GIL ratio	3.1%	3.6%	3.6%	3.6%	3.6%
Customer deposits	392,349	403,051	422,418	433,649	451,257	LLC Ratio	80.7%	91.6%	100.2%	100.0%	100.0%
Deposits & placements	23,667	31,791	30,702	38,397	39,956	LLC Ratio (+ reg reserves)	99.6%	93.4%	101.2%	100.9%	100.9%
Borrowings	58,053	44,058	30,131	37,177	38,633	ROA	0.8%	0.2%	0.7%	0.8%	1.0%
Other liabilities	41,708	66,280	78,547	85,724	88,207	ROE	8.5%	2.1%	7.5%	8.7%	10.5%
Total liabilities	515,777	545,181	561,798	594,947	618,052	Valuations					
Share capital	25,849	25,844	27,100	27,100	27,100	EPS (RM)	0.45	0.12	0.46	0.52	0.66
Retained earnings	28,137	29,950	32,814	35,443	38,843	PER (x)	11.23	42.88	11.02	9.78	7.75
Regulatory reserves	2,133	233	129	129	129	Div yield (%)	5.1	0.9	4.5	5.1	6.3
Other reserves	118	(102)	(1,180)	(1,180)	(1,180)	BV/share (RM)	5.61	5.58	5.87	6.14	6.47
Shareholders' funds	56,237	55,926	58,863	61,491	64,892	P/BV (x)	0.91	0.92	0.87	0.83	0.79
Minority interest	1,232	1,248	1,245	1,245	1,245						
Total liabilities and equity	573,246	602,355	621,907	657,684	684,189						

Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AFFIN BANK BHD	OP	2.02	2.45	21.3%	4,468.9	N	12/2022	28.0	35.7	12.3%	27.5%	7.2	5.7	0.4	5.9%	11.0	5.4%
ALLIANCE BANK MALAYSIA BHD	OP	3.53	4.20	19.0%	5,464.8	N	03/2023	44.8	51.0	21.0%	13.8%	7.9	6.9	0.8	10.5%	22.0	6.2%
AMMB HOLDINGS BHD	OP	3.88	4.75	22.4%	12,849.6	N	03/2023	49.8	54.2	9.4%	8.8%	7.8	7.2	0.7	9.5%	16.0	4.1%
BANK ISLAM MALAYSIA BHD	MP	2.57	2.45	-4.7%	5,539.0	Y	12/2022	19.5	24.4	-9.2%	23.0%	13.2	10.5	0.9	7.3%	9.7	3.8%
CIMB GROUP HOLDINGS BHD	OP	5.11	6.35	24.3%	53,523.4	N	12/2022	52.2	65.9	12.6%	26.2%	9.8	7.8	0.8	8.7%	26.0	5.1%
HONG LEONG BANK BHD	OP	20.44	23.35	14.2%	44,308.2	N	06/2023	194.3	201.5	21.0%	3.7%	10.5	10.1	1.2	12.3%	70.0	3.4%
MALAYAN BANKING BHD	OP	8.56	11.05	29.1%	102,516.7	N	12/2022	73.3	90.7	5.2%	23.7%	11.7	9.4	1.1	9.8%	60.0	7.0%
PUBLIC BANK BHD	MP	4.26	4.65	9.2%	82,689.6	N	12/2022	29.5	37.5	1.3%	26.9%	14.4	11.4	1.6	11.6%	15.5	3.6%
RHB BANK BHD	OP	5.52	7.00	26.8%	23,250.7	N	12/2022	65.4	78.7	-5.6%	20.3%	8.4	7.0	0.8	9.2%	32.0	5.8%
Simple Average										8.4%	21.3%	9.9	8.2	0.9	9.1%		5.0%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★	★	
SPECIFIC	Green Financing	★	★	★	★	★
	Cybersecurity/Data Privacy	★	★	☆		
	Digital Transformation	★	★	★		
	Staff Welfare & Training	★	★	★		
OVERALL		★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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