

01 December 2022

CIMB Group Holdings

Careful Entry into 4Q

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9MFY22 core PATAMI of RM4.12b (+8%) is within expectations. The group is confident that its topline parameters would remain strong but remains cautious as interest rate pressures could creep across its regional operations. It could further top up provisions given sufficient room and capital to do so on specific accounts. Still, the group's diversified operations stand out to us in deleveraging concentration risks. Maintain OP and GGM-derived PBV TP of RM6.40. CIMB is one of our 4QCY22 Top Picks.

9MFY22 within expectations. 9MFY22 core PATAMI of RM4.12b made up 78% of our full-year forecast and 76% of consensus full-year estimate. No dividend was declared as expected, given the group typically pays dividends biannually.

YoY, 9MFY22 net interest income (+6%) was supported by a larger regional loans base (+9%) amidst a fairly stable group-wide net interest margin (2.51%, +1bps). Interest expansion in Malaysia was likely offset by rate pressures from Indonesia. Excluding 1QFY21 one-off revaluation gain of RM1.16b from TnG Digital, non-interest income saw a modest 4% growth thanks to better fee-based performance in the wholesale front with recoveries in non-performing accounts. Overall provisions also showed improvement with credit cost coming in at 43 bps (-27 bps) as impairment needs normalised post-Covid. Adjusting for other one-off items incurred in FY21, 9FY22 core PATAMI came in at RM4.12b (+8%).

Briefing's highlights. Having reported a better-than-expected YTD loans growth, the group is confident that it can sustain present levels and raised its FY22 guidance to 8-9% (from 7.5-8.0%). Increments are coming from all fronts, with key local and Indonesian markets benefiting the most from the ongoing recovery. That said, this will likely lead to increments in operating expenses but the group had reaffirmed that a cost savings of up to RM441m has been identified from its FY22 cost restructuring. As interest rate hikes become commonplace in the group's key markets, it opines that it could net higher interest margins by the year-end where previously downside pressure was more likely, with a 5 bps improvement possibly in the cards. Still, competition for deposits will likely remain rampant especially for rate-sensitive markets like Indonesia. Meanwhile, although the group is under booking its credit cost against its target of 50-60 bps, additional provisions could be made in 4Q to provide wider coverage, particularly for its legacy accounts. No release of its RM2.7b overlays are planned as of yet.

Forecasts. Post results, we slightly tweak our FY22F/FY23F earnings from model updates.

Maintain OUTPERFORM and TP of RM6.40. Our TP is based on an unchanged GGM-derived PBV of 0.94x (COE: 11.0%, TG: 3.0%, ROE: 10.5%) on FY23F BVPS 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 (c.6%) in the medium-term. **CIMB is one of our 4QCY22 Top Picks.**

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) further slowdown in capital market activities, (v) adverse currency fluctuations, and (vi) changes to OPR.

OUTPERFORM ↔

Price : **RM5.80**
Target Price : **RM6.40** ↔

Share Price Performance



KLCI 1,488.80
YTD KLCI chg -5.0%
YTD stock price chg 6.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	CIMB MK Equity
Market Cap (RM m)	61,857.6
Shares Outstanding	10,665.1
52-week range (H)	5.87
52-week range (L)	4.75
3-mth avg daily vol	17,207,740
Free Float	44%
Beta	1.1

Major Shareholders

Khazanah Nasional Bhd	24.6%
Amanah Saham Nasional	13.5%
Employees Provident Fund	13.5%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Net interest income	14,470	15,514	16,047
Non-interest income	3,955	4,134	4,951
Total income	18,425	19,648	20,998
Operating expenses	-9,419	-9,513	-9,703
Loan impairment	-4,373	-2,596	-2,577
Pre-tax profit	5,789	7,639	8,818
PATAMI	4,295	5,233	6,654
Core PATAMI	4,648	5,233	6,654
Consensus NP		5,404	6,494
Earnings revision (%)		-0.3	-0.6
Core EPS (RM)	0.46	0.52	0.66
EPS growth (%)	289%	13%	27%
NDPS (RM)	0.23	0.26	0.32
BV/share (RM)	5.87	6.14	6.48
NTA/share (RM)	5.04	5.31	5.65
ROE (%)	7.5	8.7	10.5
PER (x)	12.5	11.1	8.7
P/BV (x)	0.99	0.95	0.90
Net Div. Yield (%)	4.0	4.5	5.5

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Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Net interest income	4,046	3,777	7.1%	3,572	13.3%	11,490	10,862	5.8%
Non-interest income	951	1,108	-14.2%	823	15.5%	3,128	4,161	-24.8%
Total income	4,997	4,884	2.3%	4,396	13.7%	14,618	15,023	-2.7%
Operating expenses	-2,281	-2,300	-0.8%	-2,267	0.6%	-6,858	-7,057	-2.8%
Pre-impairment profit	2,716	2,585	5.1%	2,129	27.6%	7,760	7,966	-2.6%
Core pre-impairment profit *	2,716	2,585	5.1%	3,451	-21.3%	7,760	8,363	-7.2%
(Allowances)/ write-backs	-478	-473	1.1%	-573	-16.5%	-1,270	-1,938	-34.5%
(Allowances)/ write-backs on other assets	-33	-9	278.6%	-1,232	-97.3%	-146	-1,286	-88.6%
Operating profit	2,205	2,103	4.8%	324	580.6%	6,343	4,741	33.8%
Core operating profit *	2,103	2,034	3.4%	1,646	27.8%	4,138	5,138	-19.5%
Associate gains / (losses)	-3	2	-296.2%	9	-134.2%	11	67	-82.9%
Profit before tax	2,202	2,105	4.6%	333	561.6%	6,354	4,808	32.2%
Taxation	-755	-781	-3.3%	-408	85.1%	-2,117	-1,297	63.2%
Minority interest	0	-43	-100.0%	-25	-100.0%	-84	-70	19.1%
Net PATAMI	1,447	1,281	12.9%	-101	-1538.0%	4,154	3,441	20.7%
Core PATAMI (net of tax)*	1,447	1,281	12.9%	1,221	18.4%	4,154	3,838	8.2%
Gross loans	406,004	394,307	3.0%	372,360	9.0%	406,004	372,360	9.0%
Gross impaired loans	14,163	13,983	1.3%	12,575	12.6%	14,163	12,575	12.6%
Customer deposits	426,401	420,937	1.3%	426,202	0.0%	426,401	426,202	0.0%
Current and savings account (CASA)	187,092	186,703	0.2%	182,282	2.6%	187,092	182,282	2.6%
Total assets	672,357	652,993	3.0%	627,371	7.2%	672,357	627,371	7.2%
Shareholders' equity	61,856	60,323	2.5%	58,285	6.1%	61,856	58,285	6.1%
Est. annualised NIM	2.61%	2.49%		2.45%		2.51%	2.50%	
Cost-to-income ratio	45.6%	47.1%		51.6%		46.9%	47.0%	
Annualised credit cost (bps)	47.8	48.6		61.8		43.2	70.0	
Effective tax rate	34.3%	37.1%		122.6%		33.3%	27.0%	
Annualised ROA	0.9%	0.8%		-0.1%		0.9%	0.8%	
Annualised ROE	9.5%	8.4%		-0.7%		9.2%	9.0%	
Gross impaired loans ratio	3.5%	3.5%		3.4%		3.5%	3.4%	
Loan loss coverage ratio (LLC)	99.9%	99.6%		105.1%		99.9%	105.1%	
LLC plus regulatory reserves	103.6%	102.0%		105.3%		103.6%	105.3%	
Loan-to-deposit ratio	92.1%	90.6%		84.7%		92.1%	84.7%	
CASA-to-deposit ratio	43.9%	44.4%		42.8%		43.9%	42.8%	
CET-1 capital (Group level)	14.1%	14.1%		13.9%		14.1%	13.9%	

Note:

* Excluding one-off items of: (i) 1QFY21's RM1,156m revaluation gain from TnG Digital; (ii) deferred tax asset for cukai makmur; and (iii) 3QFY21's RM1,215m goodwill write off on Thai operations

Source: Company, Kenanga Research

Management Guidance

	FY22 Targets	FY21 Performance
Return on equity	8.0 – 9.0%	8.1%
Net loans growth	8.0 – 9.0%	3.2%
	(from 7.5 – 8.0%)	
Credit cost	50 – 60 bps	73 bps
Cost-to-income ratio	<48.0%	48.5%
NIM	+5 bps	2.51%
	(from +/- 5bps)	
Dividend payout	40 – 60%	50%

Source: Company, 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. 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	MP	2.15	2.25	4.7%	4,756.5	N	12/2022	12.9	25.1	-48.3%	94.6%	16.7	8.6	0.5	2.8%	29.1	13.5%
ALLIANCE BANK MALAYSIA BHD	OP	3.87	4.20	8.5%	5,991.2	N	03/2023	45.5	52.1	22.9%	14.6%	8.5	7.4	0.9	10.7%	22.0	5.7%
AMMB HOLDINGS BHD	OP	4.17	4.75	13.9%	13,810.0	N	03/2023	49.9	54.3	9.7%	8.7%	8.3	7.7	0.8	9.5%	16.0	3.8%
BANK ISLAM MALAYSIA BHD	MP	2.56	2.45	-4.3%	5,517.5	Y	12/2022	19.7	24.5	-10.1%	24.5%	13.0	10.5	0.9	7.4%	10.0	3.9%
CIMB GROUP HOLDINGS BHD	OP	5.80	6.40	10.3%	61,857.6	N	12/2022	52.2	66.4	12.6%	27.1%	11.1	8.7	0.9	8.7%	26.0	4.5%
HONG LEONG BANK BHD	OP	20.86	23.35	11.9%	45,218.6	N	06/2023	197.2	201.4	22.8%	2.1%	10.6	10.4	1.3	12.5%	70.0	3.4%
MALAYAN BANKING BHD	OP	8.63	10.40	20.5%	104,027.1	N	12/2022	73.5	87.5	5.5%	19.1%	11.7	9.9	1.1	9.9%	60.0	7.0%
PUBLIC BANK BHD	MP	4.50	4.70	4.4%	87,348.1	N	12/2022	29.6	38.0	1.6%	28.4%	15.2	11.8	1.7	11.6%	15.5	3.4%
RHB BANK BHD	OP	5.62	7.00	24.6%	23,870.2	N	12/2022	66.0	80.5	-4.6%	21.9%	8.5	7.0	0.8	9.3%	32.0	5.7%
Simple Average										3.0%	28.2%	11.2	8.8	0.9	8.8%		5.7%

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	★	★	★	★	
	OVERALL	★	★	★	★	
SPECIFIC	Green Financing	★	★	★	★	★
	Cybersecurity/Data Privacy	★	★	☆		
	Digital Transformation	★	★	★		
	Staff Welfare & Training	★	★	★		

☆ 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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