

27 January 2023

# CIMB Group Holdings

## Impending Interest Pressures

By Clement Chua | [clement.chua@kenanga.com.my](mailto:clement.chua@kenanga.com.my)

We maintain our GGM-derived PBV TP of RM6.40 (COE: 11.0%, TG: 3.0%, ROE: 10.5%) and OP call. The industry could face hindrances to interest income as on top of heightening competition for funds, the maturity of past termed deposit products could further drag funding costs on renewal. Still, this is widely expected in reflection of rising rates, which could also hamper asset quality. CIMB's position is at least secured by better-than-peer readings of its non-interest income (NOII). CIMB is one of our 1QCY23 Top Picks.

CIMB hosted a sell-side 4QFY22 pre-results briefing yesterday. Key takeaways are as follows:

- **Maturing termed deposits to weigh down interest margins.** The group hinted of continual intensity in price competition of deposits, but this was widely anticipated given Nov 2022 experiencing another OPR hike. However, owing to maturing long-term deposits, a refresh of now higher interest rates will likely cause a more noticeable dent in margins as compared to prior quarters. Regionally, the impact of this is thought to be in tandem to the size of respective operations, being Malaysia seeing the largest offset, followed by Indonesia, Singapore and Thailand. This could normalise in FY23 should interest rates stabilise.
- **Allowance for higher provisions in 4QFY22.** During its 3QFY22 earnings presentation, the group maintained its 50-60 bps credit cost guidance for FY22. This indicates room for additional provisions ahead of its 9MFY22 annualised credit cost of 43 bps. The group has now identified the need for further overlays with specific allocation to non-retail accounts and legacy portfolios in the Indonesian steel industry. Our assumptions reflect a possible net charge of >RM700.0m in 4QFY22 (3QFY22: RM478m) to achieve this, amounting to >RM2.0b in total FY22 net provisions. Still, this is an improvement from FY21's RM2.61b net impairment.
- **NOII streams to rejuvenate.** Banks saw a lull here due to poor sentiment dragging investment trading and forex exposures. The group anticipates stronger performance in 4QFY22 as macros were supportive of higher fee income and trading activities. That said, CIMB was one of the better performing banks in NOII, thanks to lumpier portfolio recoveries reported throughout FY22.

**Forecasts.** Post updates, we leave our FY22F/FY23F assumptions unchanged. We note that our credit cost assumptions are highly conservative at 63 bps (against 50-60 bps guidance) to buffer against possible surprises as asset quality outlook is highly uncertain, particularly during the ongoing interest rate upcycle.

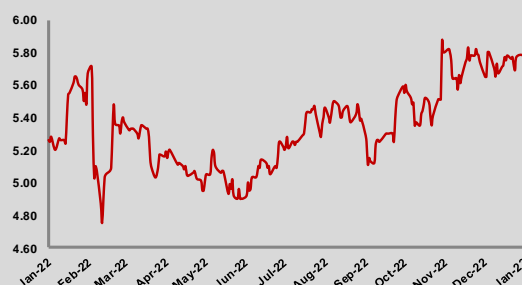
**Maintain OUTPERFORM and TP of RM6.40.** Our TP is based on an unchanged GGM-derived PBV of 0.88x (COE: 11.0%, TG: 3.0%, ROE: 10.5%) with an applied 5% premium granted by CIMB's 4-star ESG ranking thanks to headways in green financing. Fundamentally, the stock is supported by its regional diversification, 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 (27% vs. industry average of 23%) while offering attractive dividend yields (6%) in the medium-term. **CIMB is one of our 1QCY23 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) slowdown in capital market activities, (v) unfavourable currency fluctuations, and (vi) changes to OPR.

# OUTPERFORM ↔

Price : RM5.72  
Target Price : RM6.40 ↔

### Share Price Performance



KLCI	1,498.39
YTD KLCI chg	0.2%
YTD stock price chg	-1.4%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	CIMB MK Equity
Market Cap (RM m)	61,004.4
Shares Outstanding	10,665.1
52-week range (H)	5.87
52-week range (L)	4.75
3-mth avg daily vol	16,780,820
Free Float	45%
Beta	1.0

### Major Shareholders

Khazanah Nasional Bhd	24.1%
Employees Provident Fund	13.5%
Amanah Saham Nasional	12.9%

### 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
<b>Total income</b>	<b>18,425</b>	<b>19,648</b>	<b>20,998</b>
Operating expenses	-9,419	-9,513	-9,703
<b>Total impairment</b>	<b>-4,373</b>	<b>-2,596</b>	<b>-2,577</b>
Pre-tax profit	5,789	7,639	8,818
<b>Net Profit</b>	<b>4,295</b>	<b>5,233</b>	<b>6,654</b>
<b>Core Net Profit</b>	<b>4,648</b>	<b>5,233</b>	<b>6,654</b>
Consensus NP		5,366	6,360
Earnings revision		-	-
Core EPS (RM)	0.46	0.52	0.66
EPS growth (%)	289.2	12.6	27.1
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)	12.4	11.0	8.6
P/BV (x)	0.98	0.93	0.88
Net Div. Yield (%)	4.0	4.5	5.6

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**Income Statement**

FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F
Net interest income	13,125	13,378	14,470	15,514	16,047
Non-interest income	4,419	4,033	3,955	4,134	4,951
<b>Total income</b>	<b>17,544</b>	<b>17,410</b>	<b>18,425</b>	<b>19,648</b>	<b>20,998</b>
Operating expenses	-9,873	-8,977	-9,419	-9,513	-9,703
<b>PPOP</b>	<b>7,671</b>	<b>8,433</b>	<b>9,006</b>	<b>10,135</b>	<b>11,295</b>
Loan impairments	-1,639	-5,342	-2,614	-2,396	-2,127
Other impairments	-340	-1,456	-1,759	-200	-450
Associates	31	116	1,218	100	100
<b>Pre-tax profit</b>	<b>5,975</b>	<b>1,530</b>	<b>5,789</b>	<b>7,639</b>	<b>8,818</b>
Tax and zakat	-1,520	-384	-1,397	-2,299	-2,028
Minority interest	104	48	-97	-107	-136
<b>Net Profit</b>	<b>4,560</b>	<b>1,194</b>	<b>4,295</b>	<b>5,233</b>	<b>6,654</b>
<b>Core Net Profit</b>	<b>4,560</b>	<b>1,194</b>	<b>4,648</b>	<b>5,233</b>	<b>6,654</b>

**Balance Sheet**

FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F
Cash & ST funds	75,902	82,277	85,949	77,445	79,791
Investment securities	85,198	120,171	128,439	152,249	156,862
Loans and financing	360,340	353,916	364,685	396,761	416,971
Other assets	42,263	36,246	34,533	30,162	29,825
Intangible assets	9,543	9,745	8,302	8,302	8,302
<b>Total Assets</b>	<b>573,246</b>	<b>602,355</b>	<b>621,907</b>	<b>664,917</b>	<b>691,751</b>
Customer deposits	392,349	403,051	422,418	430,665	448,152
Deposits & placements	23,667	31,791	30,702	33,833	35,206
Borrowings	58,053	44,058	30,131	46,209	48,032
Other liabilities	41,708	66,280	78,547	91,474	94,178
<b>Total liabilities</b>	<b>515,777</b>	<b>545,181</b>	<b>561,798</b>	<b>602,181</b>	<b>625,568</b>
Share capital	25,849	25,844	27,100	27,100	27,100
Retained earnings	28,137	29,950	32,814	35,442	38,888
Regulatory reserves	2,133	233	129	129	129
Other reserves	118	-102	-1,180	-1,180	-1,180
<b>Shareholders' funds</b>	<b>56,237</b>	<b>55,926</b>	<b>58,863</b>	<b>61,491</b>	<b>64,937</b>
Minority interest	1,232	1,248	1,245	1,245	1,245
<b>Total liabilities and equity</b>	<b>573,246</b>	<b>602,355</b>	<b>621,907</b>	<b>664,917</b>	<b>691,751</b>

**Financial Data & Ratios**

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Growth</b>					
Net interest income	7.2%	1.9%	8.2%	7.2%	3.4%
Non-interest income	9.2%	-8.8%	-1.9%	4.5%	19.8%
Total income	7.7%	-0.8%	5.8%	6.6%	6.9%
Operating expenses	14.1%	-9.1%	4.9%	1.0%	2.0%
PPOP	0.5%	9.9%	6.8%	12.5%	11.4%
Loan impairment	14.4%	226.0%	-51.1%	-8.3%	-11.2%
Pre-tax profit	-17.0%	-74.4%	278.3%	31.9%	15.4%
Net Profit	-18.3%	-73.8%	259.6%	21.8%	27.1%
Core Net Profit	-18.3%	-73.8%	289.2%	12.6%	27.1%
Gross loans	6.9%	-1.8%	3.0%	8.8%	5.1%
Customer deposits	6.0%	2.7%	4.8%	2.0%	4.1%

**Operating metrics**

Est avg asset yield	5.06%	4.24%	3.67%	3.83%	3.95%
Est avg funding cost	2.78%	2.02%	1.40%	1.59%	1.79%
Est NIM	2.54%	2.43%	2.50%	2.53%	2.47%
Cost-to-Income ratio	55.5%	52.2%	51.3%	48.4%	46.2%
Credit cost (bps)	47.0	149.6	72.7	62.9	52.3
Loan-to-deposit ratio	91.8%	87.8%	86.3%	92.1%	93.0%
GIL ratio	3.1%	3.6%	3.6%	3.6%	3.6%
LLC Ratio	80.7%	91.6%	100.2%	100.0%	100.0%
LLC Ratio (+ reg reserves)	99.6%	93.4%	101.2%	100.9%	100.9%
ROA	0.8%	0.2%	0.7%	0.8%	1.0%
ROE	8.5%	2.1%	7.5%	8.7%	10.5%

**Valuations**

EPS (RM)	0.45	0.12	0.46	0.52	0.66
PER (x)	12.59	48.08	12.35	10.97	8.63
Div yield (%)	4.5	0.8	4.0	4.5	5.6
BV/share (RM)	5.61	5.58	5.87	6.14	6.48
P/BV (x)	1.02	1.03	0.98	0.93	0.88

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.
<b>Stocks Under Coverage</b>																	
AFFIN BANK BHD	OP	2.09	2.25	7.7%	4,752.4	N	12/2022	12.9	25.9	-48.3%	100.6%	16.2	8.1	0.5	2.8%	29.1	13.9%
ALLIANCE BANK MALAYSIA BHD	OP	3.61	4.20	16.3%	5,588.7	N	03/2023	45.7	52.9	23.5%	15.8%	7.9	6.8	0.8	10.7%	22.0	6.1%
AMMB HOLDINGS BHD	OP	4.08	4.75	16.4%	13,502.4	N	03/2023	50.2	55.4	10.2%	10.4%	8.1	7.4	0.8	9.6%	16.0	3.9%
BANK ISLAM MALAYSIA BHD	MP	2.50	2.45	-2.0%	5,388.2	Y	12/2022	19.7	25.2	-10.1%	28.0%	12.7	9.9	0.9	7.4%	10.0	4.0%
CIMB GROUP HOLDINGS BHD	OP	5.72	6.40	11.9%	61,004.4	N	12/2022	52.2	66.8	12.6%	27.9%	11.0	8.6	0.9	8.7%	26.0	4.5%
HONG LEONG BANK BHD	OP	20.88	23.40	12.1%	45,262.0	N	06/2023	198.1	202.6	23.3%	2.3%	10.5	10.3	1.3	12.6%	70.0	3.4%
MALAYAN BANKING BHD	OP	8.78	10.45	19.0%	105,835.2	N	12/2022	72.9	89.2	4.7%	22.3%	12.0	9.8	1.2	9.8%	60.0	6.8%
PUBLIC BANK BHD	OP	4.28	4.70	9.8%	83,077.8	N	12/2022	29.6	38.4	1.6%	29.7%	14.5	11.1	1.6	11.6%	15.5	3.6%
RHB BANK BHD	OP	5.72	7.05	23.3%	24,295.0	N	12/2022	66.0	82.1	-4.6%	24.4%	8.7	7.0	0.8	9.3%	32.0	5.6%
<b>SECTOR AGGREGATE</b>					<b>353,080.6</b>					<b>6.2%</b>	<b>22.5%</b>	<b>11.8</b>	<b>9.7</b>	<b>1.1</b>	<b>9.5%</b>		<b>5.8%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workforce Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★		
<b>SPECIFIC</b>	Green Financing	★	★	★	★	★
	Financial Inclusion	★	★	★	☆	
	Cybersecurity/Data Privacy	★	★	☆		
	Digitalisation & Innovation	★	★	★	★	
	Diversity & Inclusion	★	★	★		
	Customer Experience	★	★	★		
<b>OVERALL</b>		★	★	★	★	

☆ 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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

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)

