

25 October 2023

CIMB Group Holdings

Books Still Sound

By Clement Chua | clement.chua@kenanga.com.my

We maintain our GGM-derived PBV TP of RM6.30 (COE: 11.2%, TG: 3.5%, ROE: 10.5%) and OP call. We anticipate CIMB to remain strong with regards to its earnings delivery and books management. The most prominent risk lies with unexpected impairments which we reckon could be low in the present climate. Meanwhile, other guidances may be on track to meet expectations. Our assumptions are unchanged post-briefing. CIMB is one of our 4QCY23 top picks.

CIMB hosted a sell-side 3QFY23 pre-results briefing yesterday. Key takeaways are as follows:

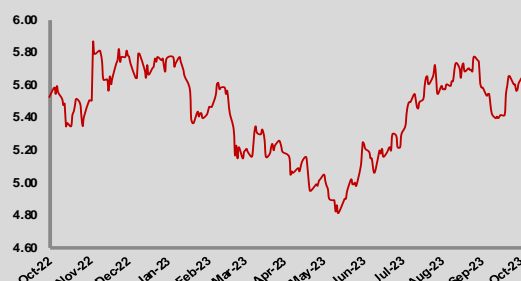
- Loan growth likely as anticipated.** The 6%-7% guidance on loan growth will likely be met on the group's expectation that moderate growth will be protracted from supportive economic conditions, albeit likely not as vibrant. We opine the group's target may be conservative having reported a 3.3% QoQ loan growth and 8.3% YoY.
- NIMs pressure to subside.** The group opined that the worst is over with regards to domestic deposits competition, with the group having progressively trimmed product rates to sustain margins. On the other hand, Thailand and Indonesian operations may incur higher funding costs as a reaction to the competitive climate there. Offsetting anticipated recoveries in Malaysia, we may still experience a net margin compression on a group level (FY23 target at 5-10 bps decline).
- Forex volatility not a concern.** Amidst ongoing fluctuations of the ringgit, the group believed the overall impact may be contained as volatility could still drive trading and forex gains. Mitigating this may be overall lower fees, which may also experience sequential decline given 2QFY23's lumpier recording of NPL sales as well as certain wholesale fee income.
- Higher expenses likely in tandem with top line.** The group continued to expect operating costs to further rise. Notwithstanding the recent union wage adjustments from collective agreements, CIMB has also been investing more heavily into marketing and establishment costs to keep up with stronger business activities. That said, cost-income ratio may still remain flattish at c.46.5% per last guidance, indicating cost control is still in check.
- Unworried on asset quality.** There appears to be fewer signals which would trigger the group to further tighten its asset quality management. As business climate normalises (ex-Covid relief measures), GIL levels are likely to remain contained with overlays still providing sufficient buffers against unexpected headwinds. Additionally, the group may not be exposed to recently troubled names in the airline industry, which could reduce the likelihood of unexpected topping up of provisions.

Forecast. Post-update, we maintain our FY23F/FY24F numbers.

OUTPERFORM ↔

Price : RM5.68
Target Price : RM6.30 ↔

Share Price Performance



KLCI	1,435.65
YTD KLCI chg	-4.0%
YTD stock price chg	-2.1%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	CIMB MK Equity
Market Cap (RM m)	60,577.8
Shares Outstanding	10,665.1
52-week range (H)	5.87
52-week range (L)	4.81
3-mth avg daily vol	12,578,520
Free Float	41%
Beta	1.1

Major Shareholders

Khazanah Nasional Bhd	23.6%
Employees Provident Fund	15.3%
Amanah Saham Nasional	9.9%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Net interest income	15,623	15,121	16,209
Non-interest income	4,198	5,250	4,295
Total income	19,820	20,371	20,504
Operating expenses	-9,346	-9,532	-9,628
Total impairment	-2,161	-1,990	-1,230
Pre-tax profit	8,371	8,949	9,543
Net Profit	5,440	6,578	7,014
Core Net Profit	5,440	6,578	7,014
Consensus NP		6,512	6,975
Earnings revision		0.0	0.0
Core EPS (RM)	0.52	0.63	0.67
EPS growth (%)	12.5	20.9	6.6
NDPS (RM)	0.26	0.35	0.37
BV/share (RM)	5.99	6.27	6.58
NTA/share (RM)	5.21	5.49	5.79
ROE (%)	9.0	10.3	10.5
PER (x)	10.9	9.0	8.4
P/BV (x)	0.95	0.91	0.86
Net Div. Yield (%)	4.6	6.2	6.5

25 October 2023

Maintain OUTPERFORM and TP of RM6.30. Our TP is based on an unchanged GGM-derived FY24F PBV of 0.92x (COE: 11.2%, TG: 3.5%, ROE: 10.5%). We also applied a 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 (21% vs. industry average of 8%) while offering attractive dividend yields (c.6%) in the medium term. The group's recent return to double-digit ROE delivery could be a clarion call to past investors as well. **CIMB is one of our 4QCY23 top picks.**

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

Income Statement

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Net interest income	13,378	14,470	15,623	15,121	16,209
Non-interest income	4,033	3,955	4,198	5,250	4,295
Total income	17,410	18,425	19,820	20,371	20,504
Operating expenses	-8,977	-9,419	-9,346	-9,532	-9,628
PPOP	8,433	9,006	10,475	10,839	10,877
Loan impairments	-5,342	-2,614	-1,953	-1,790	-1,230
Other impairments	-1,456	-1,759	-209	-200	-204
Associates	116	1,218	51	100	100
Pre-tax profit	1,530	5,789	8,371	8,949	9,543
Tax and zakat	-384	-1,397	-2,778	-2,237	-2,386
Minority interest	48	-97	-153	-134	-143
Net Profit	1,194	4,295	5,440	6,578	7,014
Core Net Profit	1,194	4,648	5,440	6,578	7,014

Balance Sheet

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Cash & ST funds	82,277	85,949	77,209	85,657	89,136
Investment securities	120,171	128,439	141,282	168,431	175,270
Loans and financing	353,916	364,685	394,557	426,506	445,904
Other assets	36,246	34,533	45,492	41,204	40,597
Intangible assets	9,745	8,302	8,181	8,181	8,181
Total assets	602,355	621,907	666,721	729,981	759,088
Customer deposits	403,051	422,418	432,950	462,752	481,542
Deposits & placements	31,791	30,702	34,189	40,413	42,054
Borrowings	44,058	30,131	37,391	43,561	45,295
Other liabilities	66,280	78,547	98,408	116,542	120,329
Total liabilities	545,181	561,798	602,937	663,268	689,219
Share capital	25,844	27,100	29,095	29,095	29,095
Retained earnings	29,950	32,814	35,271	38,200	41,356
Regulatory reserves	233	129	418	418	418
Other reserves	-102	-1,180	-2,292	-2,292	(2,292)
Shareholders' funds	55,926	58,863	62,491	65,420	68,576
Minority interest	1,248	1,245	1,293	1,293	1,293
Total liabilities and equity	602,355	621,907	666,721	729,981	759,088

Financial Data & Ratios

FY Dec	2020A	2021A	2022A	2023F	2024F
Growth					
Net interest income	1.9%	8.2%	8.0%	-3.2%	7.2%
Non-interest income	-8.8%	-1.9%	6.1%	25.1%	-18.2%
Total income	-0.8%	5.8%	7.6%	2.8%	0.7%
Operating expenses	-9.1%	4.9%	-0.8%	2.0%	1.0%
PPOP	9.9%	6.8%	16.3%	3.5%	0.3%
Loan impairment	226.0%	-51.1%	-25.3%	-8.4%	-31.3%
Pre-tax profit	-74.4%	278.3%	44.6%	6.9%	6.6%
Net Profit	-73.8%	259.6%	26.6%	20.9%	6.6%
Core Net Profit	-73.8%	289.2%	17.0%	20.9%	6.6%
Gross loans	-1.8%	3.0%	8.2%	8.1%	4.5%
Customer deposits	2.7%	4.8%	2.5%	6.9%	4.1%

Operating metrics

Est avg asset yield	4.24%	3.67%	4.09%	4.91%	4.86%
Est avg funding cost	2.02%	1.40%	1.76%	3.06%	3.00%
Est NIM	2.43%	2.50%	2.57%	2.29%	2.29%
Cost-to-Income ratio	52.2%	51.3%	47.1%	46.8%	47.0%
Credit cost (bps)	149.6	72.7	51.4	43.6	28.2
Loan-to-deposit ratio	87.8%	86.3%	91.1%	92.2%	92.6%
GIL ratio	3.6%	3.6%	3.4%	3.4%	3.4%
LLC Ratio	91.6%	100.2%	93.1%	93.0%	93.0%
LLC Ratio (+ reg reserves)	93.4%	101.2%	96.2%	95.9%	95.8%
ROA	0.2%	0.7%	0.8%	0.9%	0.9%
ROE	2.1%	7.5%	9.0%	10.3%	10.5%

Valuations

EPS (RM)	0.12	0.46	0.52	0.63	0.67
PER (x)	47.7	12.2	10.9	9.0	8.4
Div yield (%)	0.8	4.0	4.6	6.2	6.5
BV/share (RM)	5.58	5.87	5.99	6.27	6.58
P/BV (x)	1.02	0.97	0.95	0.91	0.86

Source: Kenanga Research

25 October 2023

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	2.08	2.20	5.8%	4,881	N	12/2023	24.9	27.2	-55.4%	9.1%	8.3	7.7	0.4	4.8%	12.5	6.0%
ALLIANCE BANK MALAYSIA BHD	OP	3.35	4.30	28.4%	5,186	N	03/2024	47.4	51.6	8.3%	8.9%	7.1	6.5	0.7	10.6%	25.0	7.5%
AMMB HOLDINGS BHD	OP	3.75	4.80	28.0%	12,413	N	03/2024	48.1	54.5	-8.2%	13.3%	7.8	6.9	0.7	8.6%	19.0	5.1%
BANK ISLAM MALAYSIA BHD	MP	2.14	2.15	0.5%	4,850	Y	12/2023	24.1	25.0	5.6%	3.7%	8.9	8.6	0.7	7.5%	14.5	6.8%
CIMB GROUP HOLDINGS BHD	OP	5.68	6.30	10.9%	60,578	N	12/2023	63.1	67.3	20.9%	6.6%	9.0	8.4	0.9	10.3%	35.0	6.2%
HONG LEONG BANK BHD	OP	19.42	24.20	24.6%	42,097	N	06/2024	203.4	206.6	9.1%	1.6%	9.5	9.4	1.1	11.8%	63.0	3.2%
MALAYAN BANKING BHD	OP	8.96	9.95	11.0%	108,060	N	12/2023	78.5	80.1	14.1%	2.1%	11.4	11.2	1.2	10.8%	65.0	7.3%
MALAYSIA BUILDING SOCIETY BHD	UP	0.755	0.630	-16.6%	6,208	Y	12/2023	3.4	5.2	-38.5%	52.3%	21.9	14.4	0.7	3.1%	1.8	2.4%
PUBLIC BANK BHD	OP	4.14	4.75	14.7%	80,360	N	12/2023	35.1	37.7	11.3%	7.4%	11.8	11.0	1.5	13.1%	18.0	4.3%
RHB BANK BHD	OP	5.57	7.15	28.4%	23,875	N	12/2023	67.7	74.4	1.2%	9.9%	8.2	7.5	0.8	9.4%	41.0	7.4%
SECTOR AGGREGATE					348,507					8.0%	5.9%	10.5	9.9	1.1	10.2%		5.6%

Source: Kenanga Research

This section is intentionally left blank

Stock ESG Ratings:

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

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

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 E-mail: research@kenanga.com.my

