

07 May 2024

# CIMB Group Holdings

## Profit Comes First

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We maintain our GGM-derived PBV TP of RM6.60 (COE: 11.2%, TG: 3.5%, ROE: 10.5%). The group looks to keep income sustainability as its chief priority as over-competing may lead to diluted ROE. This appears to be their stance in both loans and deposits markets, with Indonesia still being one of the key pillars of growth. Conservatively, the group has not largely factored infrastructure projects within its growth projections for FY24. Maintain our forecasts and MP call.

CIMB hosted a sell-side 1QFY24 pre-results briefing yesterday. Key takeaways are as follows:

- Moderate loans growth to be profitably selective.** From the group's 5%-7% loans growth target for FY24, it opines that its Malaysian segment could improve by 5% as well, indicating that its other regions (Indonesia, Thailand) could carry a heavier weight. This however, does not wholly include the possibility of lumpy infrastructure projects that is anticipated in 2HFY24. With regards on its strategy, CIMB appears adamant to only pursue higher yielding accounts and to not overly compromise on its wholesale pricing. On that note, we see a possibility of upside to its loans target should terms ultimately be favourable to CIMB.
- NIMs expansion may hit the brakes.** We gradually observe the lowering repricing of deposit products in the market, which should alleviate NIMs as asset yields increase. The group highlighted that sequential trends continue to reflect so, but may likely stagnant in 2HFY24 as fewer repricing opportunities may emerge and is reflective of the group's modest guidance of up to 5 bps improvement in NIMs in FY24. We believe this could be due to its peers being possessive of market share and may be more willing to compromise on slightly higher funding costs.
- NOII could remain supportive.** FY23's NOII attributed by investment trading and forex expanded by 78% YoY. While the group did not guide on its specific full-year prospects, sequential improvements could be expected in line with higher market activity as observed in 1QCY24. This could be tied to expectations for more relaxed monetary policies and economic prospects, which we opine could sustain at least throughout 1HFY24, with 2HFY24 possibly seeing headwinds should expectations pivot from global elections.

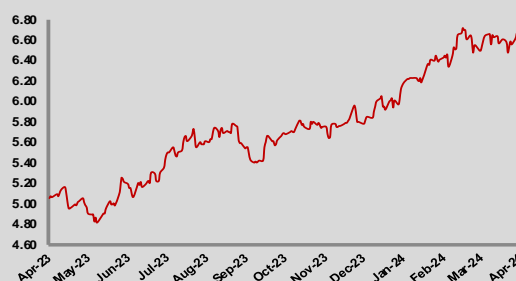
**Forecast.** Post update, we leave our earnings forecasts for CIMB unchanged for now, pending group-level earnings results to be released end-May 2024.

**Maintain TP of RM6.60.** Our TP is based on an unchanged GGM-derived FY25F 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 of which most of its peers are lacking. 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. That said, we believe its merits could have been fairly priced following the reemergence of foreign shareholders into Malaysian equities, stabilising CIMB's risk-to-reward. **Maintain MARKET PERFORM.**

# MARKET PERFORM ↔

Price : RM6.75  
Target Price : RM6.60 ↔

## Share Price Performance



|                     |          |
|---------------------|----------|
| KLCI                | 1,597.39 |
| YTD KLCI chg        | 9.8%     |
| YTD stock price chg | 16.6%    |

## Stock Information

|                       |                |
|-----------------------|----------------|
| Shariah Compliant     | No             |
| Bloomberg Ticker      | CIMB MK Equity |
| Market Cap (RM m)     | 72,089.0       |
| Shares Outstanding    | 10,679.9       |
| 52-week range (H)     | 6.75           |
| 52-week range (L)     | 4.81           |
| 3-mth avg. daily vol. | 19,675,670     |
| Free Float            | 44%            |
| Beta                  | 1.1            |

## Major Shareholders

|                          |       |
|--------------------------|-------|
| Khazanah Nasional Bhd    | 22.0% |
| Employees Provident Fund | 14.9% |
| Amanah Saham Nasional    | 9.9%  |

## Summary Earnings Table

| FY Dec (RM m)           | 2023A         | 2024F         | 2025F         |
|-------------------------|---------------|---------------|---------------|
| Net Interest Income     | 15,348        | 15,785        | 15,860        |
| Non-interest Income     | 5,670         | 6,079         | 5,624         |
| <b>Total Income</b>     | <b>21,018</b> | <b>21,863</b> | <b>21,484</b> |
| Operating Expenses      | -9,865        | -9,964        | -10,063       |
| <b>Total Impairment</b> | <b>-1,591</b> | <b>-2,074</b> | <b>-1,517</b> |
| Pre-tax Profit          | 9,541         | 9,743         | 9,859         |
| <b>Net Profit</b>       | <b>6,981</b>  | <b>7,161</b>  | <b>7,439</b>  |
| <b>Core Net Profit</b>  | <b>6,981</b>  | <b>7,161</b>  | <b>7,439</b>  |
| Consensus NP            | -             | 7,535         | 8,019         |
| Earnings Revision       | -             | -             | -             |
| Core EPS (RM)           | 0.65          | 0.67          | 0.70          |
| EPS Growth (%)          | 28.3          | 2.6           | 3.9           |
| NDPS (RM)               | 0.43          | 0.44          | 0.46          |
| BV/Share (RM)           | 6.41          | 6.64          | 6.88          |
| NTA/Share (RM)          | 5.62          | 5.85          | 6.09          |
| ROE (%)                 | 10.7          | 10.3          | 10.3          |
| PER (x)                 | 10.3          | 10.1          | 9.7           |
| P/BV (x)                | 1.05          | 1.02          | 0.98          |
| Net Div. Yield (%)      | 6.4           | 6.5           | 6.7           |

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

### Income Statement

| FY Dec (RM m)          | 2021A         | 2022A         | 2023A         | 2024F         | 2025F         |
|------------------------|---------------|---------------|---------------|---------------|---------------|
| Net interest income    | 14,470        | 15,623        | 15,348        | 15,785        | 15,860        |
| Non-interest income    | 3,955         | 4,198         | 5,670         | 6,079         | 5,624         |
| <b>Total income</b>    | <b>18,425</b> | <b>19,820</b> | <b>21,018</b> | <b>21,863</b> | <b>21,484</b> |
| Operating expenses     | -9,419        | -9,346        | -9,865        | -9,964        | -10,063       |
| <b>PPOP</b>            | <b>9,006</b>  | <b>10,475</b> | <b>11,153</b> | <b>11,900</b> | <b>11,421</b> |
| Loan impairments       | -2,614        | -1,953        | -1,534        | -2,074        | -1,517        |
| Other impairments      | -1,759        | -209          | -57           | -133          | -95           |
| Associates             | 1,218         | 51            | -17           | 50            | 50            |
| <b>Pre-tax profit</b>  | <b>5,789</b>  | <b>8,371</b>  | <b>9,541</b>  | <b>9,743</b>  | <b>9,859</b>  |
| Tax and zakat          | -1,397        | -2,778        | -2,379        | -2,436        | -2,268        |
| Minority interest      | -97           | -153          | -181          | -146          | -152          |
| <b>Net Profit</b>      | <b>4,295</b>  | <b>5,440</b>  | <b>6,981</b>  | <b>7,161</b>  | <b>7,439</b>  |
| <b>Core Net Profit</b> | <b>4,648</b>  | <b>5,440</b>  | <b>6,981</b>  | <b>7,161</b>  | <b>7,439</b>  |

### Balance Sheet

| FY Dec (RM m)                    | 2021A          | 2022A          | 2023A          | 2024F          | 2025F          |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash & ST funds                  | 85,949         | 77,209         | 83,395         | 86,781         | 90,305         |
| Investment securities            | 128,439        | 141,282        | 165,560        | 172,601        | 179,610        |
| Loans and financing              | 364,685        | 394,557        | 429,450        | 448,210        | 466,415        |
| Other assets                     | 34,533         | 45,492         | 46,776         | 45,644         | 45,702         |
| Intangible assets                | 8,302          | 8,181          | 8,391          | 8,391          | 8,391          |
| <b>Total assets</b>              | <b>621,907</b> | <b>666,721</b> | <b>733,572</b> | <b>761,628</b> | <b>790,423</b> |
| Customer deposits                | 422,418        | 432,950        | 463,442        | 481,446        | 500,995        |
| Deposits & placements            | 30,702         | 34,189         | 40,283         | 41,919         | 43,621         |
| Borrowings                       | 30,131         | 37,391         | 40,897         | 42,341         | 43,847         |
| Other liabilities                | 78,547         | 98,408         | 119,111        | 123,615        | 127,066        |
| <b>Total liabilities</b>         | <b>561,798</b> | <b>602,937</b> | <b>663,733</b> | <b>689,321</b> | <b>715,529</b> |
| Share capital                    | 27,100         | 29,095         | 29,095         | 29,095         | 29,095         |
| Retained earnings                | 32,814         | 35,271         | 35,271         | 37,739         | 40,326         |
| Regulatory reserves              | 129            | 418            | 1,103          | 1,103          | 1,103          |
| Other reserves                   | -1,180         | -2,292         | 2,859          | 2,859          | 2,859          |
| <b>Shareholders' funds</b>       | <b>58,863</b>  | <b>62,491</b>  | <b>68,327</b>  | <b>70,795</b>  | <b>73,382</b>  |
| Minority interest                | 1,245          | 1,293          | 1,512          | 1,512          | 1,512          |
| <b>Total liabilities, equity</b> | <b>621,907</b> | <b>666,721</b> | <b>733,572</b> | <b>761,628</b> | <b>790,423</b> |

### Financial Data & Ratios

| FY Dec              | 2021A  | 2022A  | 2023A  | 2024F | 2025F  |
|---------------------|--------|--------|--------|-------|--------|
| <b>Growth</b>       |        |        |        |       |        |
| Net interest income | 8.2%   | 8.0%   | -1.8%  | 2.8%  | 0.5%   |
| Non-interest income | -1.9%  | 6.1%   | 35.1%  | 7.2%  | -7.5%  |
| Total income        | 5.8%   | 7.6%   | 6.0%   | 4.0%  | -1.7%  |
| Operating expenses  | 4.9%   | -0.8%  | 5.6%   | 1.0%  | 1.0%   |
| PPOP                | 6.8%   | 16.3%  | 6.5%   | 6.7%  | -4.0%  |
| Loan impairment     | -51.1% | -25.3% | -21.4% | 35.2% | -26.8% |
| Pre-tax profit      | 278.3% | 44.6%  | 14.0%  | 2.1%  | 1.2%   |
| Net Profit          | 259.6% | 26.6%  | 28.3%  | 2.6%  | 3.9%   |
| Core Net Profit     | 289.2% | 17.0%  | 28.3%  | 2.6%  | 3.9%   |
| Gross loans         | 3.0%   | 8.2%   | 8.8%   | 4.4%  | 4.1%   |
| Customer deposits   | 4.8%   | 2.5%   | 7.0%   | 3.9%  | 4.1%   |

### Operating metrics

|                            |        |       |        |        |        |
|----------------------------|--------|-------|--------|--------|--------|
| Est avg asset yield        | 3.67%  | 4.09% | 5.05%  | 4.72%  | 4.85%  |
| Est avg funding cost       | 1.40%  | 1.76% | 2.83%  | 3.09%  | 3.05%  |
| Est NIM                    | 2.50%  | 2.57% | 2.33%  | 2.24%  | 2.16%  |
| Cost-to-Income ratio       | 51.3%  | 47.1% | 46.9%  | 45.6%  | 46.8%  |
| Credit cost (bps)          | 72.7   | 51.4  | 37.2   | 47.3   | 33.2   |
| Loan-to-deposit ratio      | 86.3%  | 91.1% | 92.7%  | 93.1%  | 93.1%  |
| GIL ratio                  | 3.6%   | 3.4%  | 2.7%   | 3.0%   | 3.0%   |
| LLC Ratio                  | 100.2% | 93.1% | 97.0%  | 95.0%  | 95.0%  |
| LLC Ratio (+ reg reserves) | 101.2% | 96.2% | 106.3% | 103.1% | 102.8% |
| ROA                        | 0.7%   | 0.8%  | 1.0%   | 1.0%   | 1.0%   |
| ROE                        | 7.5%   | 9.0%  | 10.7%  | 10.3%  | 10.3%  |

### Valuations

|               |      |      |      |      |      |
|---------------|------|------|------|------|------|
| EPS (RM)      | 0.46 | 0.51 | 0.65 | 0.67 | 0.70 |
| PER (x)       | 14.6 | 13.2 | 10.3 | 10.1 | 9.7  |
| Div yield (%) | 3.4  | 3.9  | 6.4  | 6.5  | 6.7  |
| BV/share (RM) | 5.87 | 5.86 | 6.41 | 6.64 | 6.88 |
| P/BV (x)      | 1.15 | 1.15 | 1.05 | 1.02 | 0.98 |

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                | UP     | 2.53            | 1.80              | -28.9% | 5,937             | N                 | 12/2024     | 21.2           | 27.8       | 21.4%           | 31.6%       | 12.0                    | 9.1         | 0.5        | 4.3%        | 8.0            | 3.2%        |
| ALLIANCE BANK MALAYSIA BHD    | OP     | 3.85            | 4.30              | 11.7%  | 5,960             | N                 | 03/2024     | 45.5           | 50.9       | 4.0%            | 11.8%       | 8.5                     | 7.6         | 0.8        | 10.2%       | 24.5           | 6.4%        |
| AMMB HOLDINGS BHD             | OP     | 4.20            | 4.80              | 14.3%  | 13,889            | N                 | 03/2024     | 43.6           | 51.1       | -16.9%          | 17.3%       | 9.6                     | 8.2         | 0.7        | 9.4%        | 19.0           | 4.5%        |
| BANK ISLAM MALAYSIA BHD       | UP     | 2.54            | 2.25              | -11.4% | 5,757             | Y                 | 12/2024     | 25.6           | 29.3       | 5.1%            | 14.1%       | 9.9                     | 8.7         | 0.8        | 7.8%        | 17.0           | 6.7%        |
| CIMB GROUP HOLDINGS BHD       | MP     | 6.75            | 6.60              | -2.2%  | 72,089            | N                 | 12/2024     | 67.1           | 69.8       | 2.6%            | 3.9%        | 10.1                    | 9.7         | 1.0        | 10.3%       | 44.0           | 6.5%        |
| HONG LEONG BANK BHD           | OP     | 19.34           | 24.20             | 25.1%  | 41,924            | N                 | 06/2024     | 196.0          | 213.1      | 5.2%            | 8.7%        | 9.9                     | 9.1         | 1.1        | 11.3%       | 60.0           | 3.1%        |
| MALAYAN BANKING BHD           | OP     | 9.83            | 11.00             | 11.9%  | 118,618           | N                 | 12/2024     | 80.7           | 82.9       | 4.1%            | 2.8%        | 12.2                    | 11.9        | 1.2        | 10.2%       | 62.0           | 6.3%        |
| MALAYSIA BUILDING SOCIETY BHD | UP     | 0.790           | 0.590             | -25.3% | 6,455             | Y                 | 12/2024     | 3.4            | 6.3        | 79.3%           | 82.1%       | 23.0                    | 12.6        | 0.6        | 2.5%        | 2.0            | 2.5%        |
| PUBLIC BANK BHD               | OP     | 4.20            | 5.10              | 21.4%  | 81,525            | N                 | 12/2024     | 37.8           | 39.6       | 10.3%           | 4.8%        | 11.1                    | 10.6        | 1.4        | 13.0%       | 21.0           | 5.0%        |
| RHB BANK BHD                  | OP     | 5.48            | 7.25              | 32.3%  | 23,489            | N                 | 12/2024     | 71.3           | 74.7       | 9.1%            | 4.8%        | 7.7                     | 7.3         | 0.7        | 9.7%        | 43.0           | 7.8%        |
| <b>SECTOR AGGREGATE</b>       |        |                 |                   |        | <b>375,642</b>    |                   |             |                |            | <b>5.0%</b>     | <b>6.2%</b> | <b>10.8</b>             | <b>10.2</b> | <b>1.1</b> | <b>9.9%</b> |                | <b>5.2%</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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