

15 October 2024

CIMB Group Holdings

Singapore: Humble But Mighty

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We maintain MARKET PERFORM and our GGM-derived PBV TP of RM7.60 (COE: 11.2%, TG: 3.5%, ROE: 11.5%). CIMB hosted an Investor's Day for its Singapore unit to highlight its key strategies over the last five years. In spite of operating only one branch in Singapore, CIMB Singapore contributes 10%-15% of group's pretax profits thanks to strong headways in treasury and corporate banking space, in line with its aspiration outlined during its Forward23+ plan.

Between FY18-FY23, CIMB Singapore posted pretax earnings CAGR of 18% vs. group's 6%. In its 1HFY24 earnings report, it reported an annualised ROE of 23.9% vs group's 11.4%.

- **Solid front in business banking.** CIMB Singapore's portfolio is built on a focus on high risk-adjusted return on capital products (RAROC), reflecting its growing focus on commercial and corporate banking clientele since FY19. Supplementing its high profit margin operations is its CASA-heavy deposit (FY23 ratio at 51%, FY19 at 38%) which is supported by the same business clientele likely in support of working capital needs.

On the flipside, we gather that CIMB Singapore is less focused on lower-margin consumer banking products such as mortgage (15% of loans) albeit being better in asset quality. This is reflective on its operating strategies, with only a single branch presence in the entire country but with a strong fleet of relationship managers, following the closure of its Orchard branch in 2021. As of 1HFY24, CIMB Singapore's market share in the retail deposits space is only 2%.

- **Treasuries and cross borders the ways to go.** The group sees opportunities in cross border activities, leveraging on more frequent SG-MYR transactions where it has built stickiness with highly competitive forex rates (in addition to SG-ID corridors). The group intends to eventually widen its presence in the preferred and private banking space to those with more frequent remittances. This is also enabled by a rising number of Malaysian expats seeking job opportunities in Singapore while continuing to bank in both countries.

- **Once bitten, twice shy.** We note that the group in FY20 had booked provisions of SGD472m (or credit cost of 388 bps) attributed to unfavourable exposures in the oil & gas space. This has prompted the group to limit its exposures in commodity trading/finance and thinly capitalised customers. A stronger prudence in managing credit risks led to its booked seeking more secured lending and accounts tied with government guarantees.

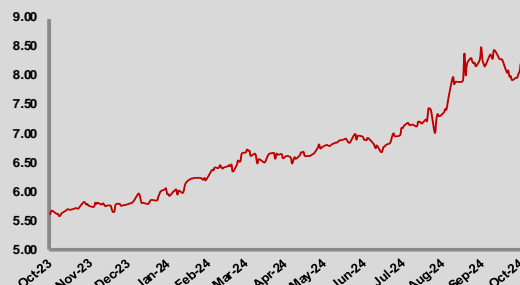
Post-kitchen sinking, CIMB Singapore had over time brought its GIL from 3.9% in FY20 to 0.8% in 1HFY24, significantly below CIMB Group's 2.5%. On a normalised basis, its credit cost would amount to c.30 bps on average.

A more efficient Singapore player. Having **MAYBANK (OP; TP: RM11.95)** also recently concluded their own showcase, we draw comparisons between CIMB Singapore and Maybank Singapore. MAYBANK reported a significantly higher 1HFY24 PBT of SGD510m vs. CIMB's SGD195m, with a loans book of SGD50.6b and SGD15.3b, respectively.

MARKET PERFORM ↔

Price : RM8.25
Target Price : RM7.60 ↔

Share Price Performance



KLCI 1,636.54
YTD KLCI chg 12.5%
YTD stock price chg 43.8%

Stock Information

Shariah Compliant No
Bloomberg Ticker CIMB MK Equity
Market Cap (RM m) 88,428.0
Shares Outstanding 10,718.5
52-week range (H) 8.49
52-week range (L) 5.57
3-mth avg. daily vol. 27,403,990
Free Float 66%
Beta 1.3

Major Shareholders

Khazanah Nasional Bhd 21.6%
Employees Provident Fund 15.4%
Amanah Saham Nasional 9.9%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Net Interest Income	15,348	15,855	16,438
Non-interest Income	5,670	6,079	6,124
Total Income	21,018	21,934	22,563
Operating Expenses	-9,865	-10,240	-10,343
Total Impairment	-1,591	-1,632	-1,524
Pre-tax Profit	9,541	10,064	10,705
Net Profit	6,981	7,397	7,868
Core Net Profit	6,981	7,397	7,868
Consensus NP	-	7,713	8,317
Earnings Revision	-	-	-
Core EPS (RM)	0.65	0.69	0.74
EPS Growth (%)	28.3	6.0	6.4
NDPS (RM)	0.43	0.49	0.46
BV/Share (RM)	6.41	6.64	6.94
NTA/Share (RM)	5.62	5.85	6.16
ROE (%)	10.7	10.6	10.9
PER (x)	12.6	11.9	11.2
P/BV (x)	1.29	1.24	1.19
Net Div. Yield (%)	5.2	5.9	5.6

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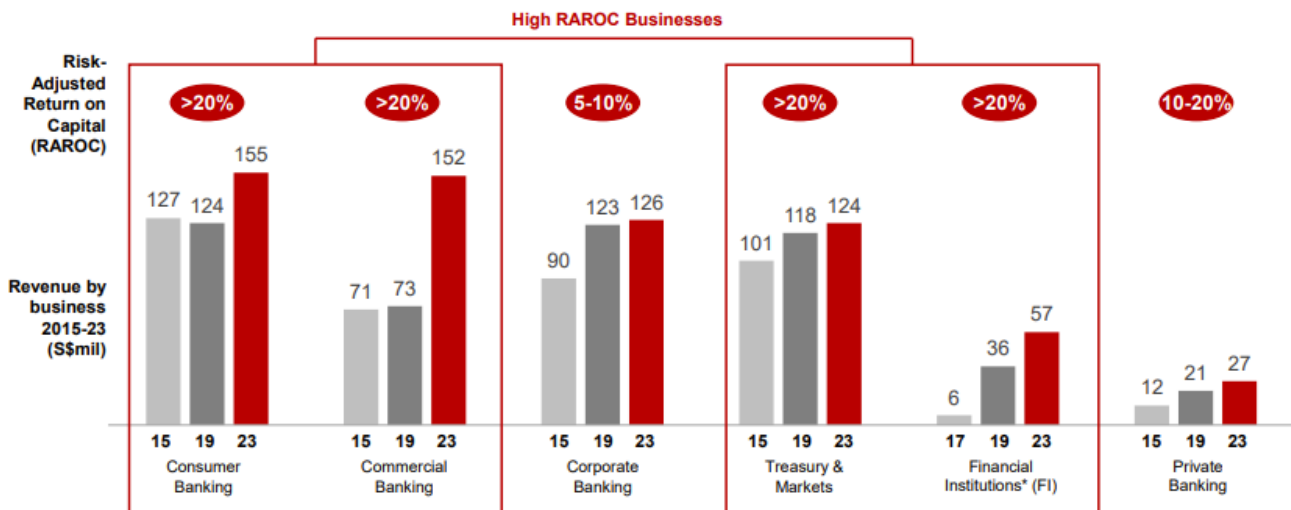
That said, likely due to the abovementioned focus on higher margin products and corporate-centric accounts, CIMB has mostly maintained NIMs at 1.30%-1.40% whereas MAYBANK recently hovered at 0.90%-1.20%. As of 1HFY24, CIMB also posted its CIR of 43% following the group’s recent cost efficiency drive - lower than MAYBANK’s 47% for the first time in 5-years. Overall, this translates CIMB’s ROE of 23.9% to outperform MAYBANK’s 11.3%, albeit this was helped by the former’s write-backs reported from the abovementioned ECL provisions. That said, with the recent appreciation in MYR, the translation of earnings on a group level may be slightly less impactful for both banks.

Forecast. Maintained.

Maintain MARKET PERFORM and TP of RM7.60. Our TP is based on an unchanged GGM-derived FY25F PBV of 1.05x (COE: 11.2%, TG: 3.5%, ROE: 11.5%). We also applied a 5% premium granted by CIMB’s 4-star ESG ranking thanks to its 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 while offering attractive dividend yields (c.6%) in the medium term. That said, its current share price indicate that it had already fully priced in FY24 ROE of 11.5%, which we have applied in our valuation, and we will assess its 2025 strategies as it is unveiled.

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

Exhibit 1: CIMB Singapore’s High RAROC Business



Source: CIMB, Kenanga Research

Exhibit 2: CIMB Singapore’s Revenue and Loans Breakdown

Key business segments	Revenue Breakdown (\$mil)									Loan Breakdown (\$bil)								
	2019	2020	2021	2022	2023	1H 2024	19-23 CAGR	% 2019 Inc.	% 1H 2024 Inc.	2019	2020	2021	2022	2023	1H 2024	19-23 CAGR	% 2019 Loans	% 1H 2024 Loans
Consumer	124	99	109	137	155	96	6%	26%	27%	3.1	3.6	4.7	5.1	5.1	5.1	13%	24%	33%
Commercial	73	43	47	88	152	79	20%	15%	22%	1.7	1.2	1.3	1.3	1.6	1.7	-2%	13%	11%
Business Banking	73	33	34	55	86	41	4%	15%	12%	1.7	1.0	0.9	0.8	0.8	0.7	-17%	13%	5%
SME	-	10	14	33	66	37	-	-	10%	-	0.2	0.3	0.6	0.8	1.0	-	-	7%
Wholesale	274	236	261	246	286	180	1%	58%	51%	7.8	7.6	7.0	7.3	8.3	8.5	2%	61%	56%
Total (incl. elimination)	453	377	409	463	584	353	7%			12.7	12.4	13.0	13.7	15.0	15.3	4%	100%	100%

Source: CIMB, Kenanga Research

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Income Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Net interest income	14,470	15,623	15,348	15,855	16,438
Non-interest income	3,955	4,198	5,670	6,079	6,124
Total income	18,425	19,820	21,018	21,934	22,563
Operating expenses	-9,419	-9,346	-9,865	-10,240	-10,343
PPOP	9,006	10,475	11,153	11,694	12,220
Loan impairments	-2,614	-1,953	-1,534	-1,632	-1,524
Other impairments	-1,759	-209	-57	-10	-5
Associates	1,218	51	-17	12	14
Pre-tax profit	5,789	8,371	9,541	10,064	10,705
Tax and zakat	-1,397	-2,778	-2,379	-2,516	-2,676
Minority interest	-97	-153	-181	-151	-161
Net Profit	4,295	5,440	6,981	7,397	7,868
Core Net Profit	4,648	5,440	6,981	7,397	7,868

Balance Sheet

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Cash & ST funds	85,949	77,209	83,395	82,821	86,184
Investment securities	128,439	141,282	165,560	171,953	178,935
Loans and financing	364,685	394,557	429,450	453,745	472,169
Other assets	34,533	45,492	46,776	41,752	41,993
Intangible assets	8,302	8,181	8,391	8,391	8,391
Total assets	621,907	666,721	733,572	758,663	787,672
Customer deposits	422,418	432,950	463,442	470,930	490,052
Deposits & placements	30,702	34,189	40,283	43,767	45,544
Borrowings	30,131	37,391	40,897	42,299	43,803
Other liabilities	78,547	98,408	119,111	129,358	132,701
Total liabilities	561,798	602,937	663,733	686,353	712,100
Share capital	27,100	29,095	29,095	29,095	29,095
Retained earnings	32,814	35,271	35,271	37,442	40,405
Regulatory reserves	129	418	1,103	1,103	1,103
Other reserves	-1,180	-2,292	2,859	3,159	3,459
Shareholders' funds	58,863	62,491	68,327	70,798	74,061
Minority interest	1,245	1,293	1,512	1,512	1,512
Total liabilities, equity	621,907	666,721	733,572	758,663	787,672

Financial Data & Ratios

FY Dec	2021A	2022A	2023A	2024F	2025F
Growth					
Net interest income	8.2%	8.0%	-1.8%	3.3%	3.7%
Non-interest income	-1.9%	6.1%	35.1%	7.2%	0.7%
Total income	5.8%	7.6%	6.0%	4.4%	2.9%
Operating expenses	4.9%	-0.8%	5.6%	3.8%	1.0%
PPOP	6.8%	16.3%	6.5%	4.8%	4.5%
Loan impairment	-51.1%	-25.3%	-21.4%	6.3%	-6.6%
Pre-tax profit	278.3%	44.6%	14.0%	5.5%	6.4%
Net Profit	259.6%	26.6%	28.3%	6.0%	6.4%
Core Net Profit	289.2%	17.0%	28.3%	6.0%	6.4%
Gross loans	3.0%	8.2%	8.8%	5.7%	4.1%
Customer deposits	4.8%	2.5%	7.0%	1.6%	4.1%

Operating metrics

Est. avg. asset yield	3.67%	4.09%	5.05%	5.06%	5.10%
Est. avg. funding cost	1.40%	1.76%	2.83%	3.39%	3.39%
Est NIM	2.50%	2.57%	2.33%	2.24%	2.22%
Cost-to-Income ratio	51.3%	47.1%	46.9%	46.7%	45.8%
Credit cost (bps)	72.7	51.4	37.2	36.9	32.9
Loan-to-deposit ratio	86.3%	91.1%	92.7%	96.4%	96.4%
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%	103.0%	102.7%
ROA	0.7%	0.8%	1.0%	1.0%	1.0%
ROE	7.5%	9.0%	10.7%	10.6%	10.9%

Valuations

EPS (RM)	0.46	0.51	0.65	0.69	0.74
PER (x)	17.8	16.2	12.6	11.9	11.2
Div yield (%)	2.8	3.2	5.2	5.9	5.6
BV/share (RM)	5.87	5.86	6.41	6.64	6.94
P/BV (x)	1.40	1.41	1.29	1.24	1.19

Source: Kenanga Research

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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) 1-Yr.	Net Div Yld 1-Yr.
								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	UP	2.91	2.20	-24.4%	6,985.4	N	12/2024	20.6	26.9	18.4%	30.2%	14.1	10.8	0.6	4.2%	8.0	2.7%
ALLIANCE BANK MALAYSIA BHD	OP	4.48	5.00	11.6%	6,935.5	N	03/2025	49.0	52.9	9.8%	8.0%	9.1	8.5	0.9	10.3%	25.0	5.6%
AMMB HOLDINGS BHD	OP	5.19	5.85	12.7%	17,181.3	N	03/2025	57.2	59.1	21.6%	3.3%	9.1	8.8	0.9	9.6%	22.0	4.2%
BANK ISLAM MALAYSIA BHD	UP	2.70	2.35	-13.0%	6,119.5	Y	12/2024	25.2	29.0	3.3%	14.9%	10.7	9.3	0.8	7.6%	17.0	6.3%
CIMB GROUP HOLDINGS BHD	MP	8.25	7.60	-7.9%	88,428.0	N	12/2024	69.4	73.8	6.0%	6.4%	11.9	11.2	1.2	10.6%	49.0	5.9%
HONG LEONG BANK BHD	OP	21.10	27.40	29.9%	45,738.9	N	06/2025	212.9	223.4	4.0%	4.9%	9.9	9.4	1.1	11.3%	71.0	3.4%
MALAYAN BANKING BHD	OP	10.54	11.95	13.4%	127,185.7	N	12/2024	80.6	91.0	4.0%	12.8%	13.1	11.6	1.3	10.2%	62.0	5.9%
MALAYSIA BUILDING SOCIETY BHD	UP	0.765	0.590	-22.9%	6,290.1	Y	12/2024	4.0	6.4	109.0%	58.7%	19.1	12.0	0.5	2.9%	2.0	2.6%
PUBLIC BANK BHD	OP	4.39	5.10	16.2%	85,212.9	N	12/2024	37.5	39.2	9.5%	4.6%	11.7	11.2	1.5	12.9%	21.0	4.8%
RHB BANK BHD	OP	6.27	7.55	20.4%	27,334.0	N	12/2024	69.8	72.7	6.8%	4.2%	9.0	8.6	0.8	9.5%	42.5	6.8%
SECTOR AGGREGATE					417,411					7.3%	8.1%	11.7	10.8	1.2	10.1%		4.8%

Source: Kenanga Research

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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.**

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