CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

CIMB CLIMBS higher

***Maintain* BUY**

***Revised* Target Price: RM6.16**

(Previously RM6.14)

KEY INVESTMENT HIGHLIGHTS

- **Earnings were above our expectations**
- **We increase our FY22/FY23/FY24 earnings forecasts**
- **Core drivers: (1) Regional presence as a buffer to country-specific pressures, (2) CIMB Niaga's recent deployment of liquidity, (3) Cost optimisations efforts successful so far, (4) Commercial loan rebalancing close to finish**
- **Key risks: Higher-than-expected NCC, Volatile NOII figures, CASA attrition leading to higher COF**
- **Maintain BUY call with upgraded TP of RM6.16**

Highlights from CIMB's 2QFY22 quarterly results:

1. CIMB's YTD earnings rose by +3.5%yoy due to lower loan provisions, OPEX and improved NII.
2. RA loans showed sizeable rundown, spurred by Thai and Malaysian loans.
3. GIL ticked upwards to 3.55%, driven by Malaysia's consumer RA loan rundown.
4. 1HFY22's NCC is a low 39bps, management reduces NCC guidance.
5. 2QFY22's NIM rose by +2bps qoq, -4bps yoy to 2.47%, FY22 guidance is more skewed to positive.
6. 2QFY22's NOII up by +1.9%yoy, driven by strong foreign fee income.
7. Fast pace of loan growth: gross loans grew by +6.8%yoy, driven by consumer loan takeup.
8. Deposit growth strong at +7.3%yoy. CASA declines to 43.5%
9. 1HFY22's OPEX fell by -2.5%yoy, following cost takeout exercise.
10. Dividend announced: Gross DPS of 13.0sen, payout of 50%.

FINANCIAL SUMMARY

FYE Dec	FY20	FY21	FY22F	FY23F	FY24F
NII (RM m)	12,725	13,958	14,701	15,220	15,790
NOII (RM m)	4,464	4,414	4,580	5,278	6,189
Total income (RM m)	16,987	18,362	19,281	20,497	21,979
PPOP (RM m)	8,212	8,944	9,930	10,556	11,319
Core net profit (RM m)	1,194	4,648	5,177	6,086	7,143
Core EPS (sen)	11.9	46.4	51.7	60.7	71.3
Core P/E (x)	45.1	11.6	10.4	8.8	7.5
Gross DPS (sen)	4.8	23.0	25.8	30.4	35.6
Dividend yield (%)	0.9	4.3	4.8	5.7	6.6
BVPS (RM)	5.6	5.9	6.1	6.5	6.9
P/BV (x)	1.0	0.9	0.9	0.8	0.8
ROE (%)	2.1	8.1	8.6	9.6	10.6

RETURN STATISTICS	
Price @ 30 August 2022 (RM)	5.37
Expected share price return (%)	+14.8
Expected dividend yield (%)	+4.8
Expected total return (%)	**+19.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.8	3.3
3 months	9.1	10.2
12 months	10.2	17.7

KEY STATISTICS	
FBM KLCI	1,512.05
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	10698.48
Estimated free float (%)	40.12
Market Capitalisation (RM m)	56,665.71
52-wk price range	RM4.65 - RM5.75
Beta vs FBM KLCI (x)	1.21
Monthly velocity (%)	
Monthly volatility (%)	10.28
3-mth average daily volume (m)	9.88
3-mth average daily value (RM m)	51.14
Top Shareholders (%)	
Khazanah Nasional Bhd	24.83
Employees Provident Fund Board	15.32
ASNB	10.29

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Above our but within consensus expectations. CIMB's 1HFY22 core net profit of RM2.7b made up 58% and 54% of our and consensus' full-year forecasts respectively. The variance was due to better-than-expected cost management, and lower NCC as CIMB revises its FY22 guidance in a more optimistic light.

YTD earnings rose by +3.5%yoy due to improved NII, lower loan provisions and OPEX offsetting weaker NOII and higher tax expenses resulting from Cukai Makmur. Meanwhile, quarterly earnings of RM1.32b rose by +3.5%yoy as result on the back of stronger NII and NOII income, lower OPEX and loan provisions offsetting increased tax expenses. It fell by -10.0%qoq due to significant loan writebacks made in the first quarter.

Repayment assistance (RA) loans. As of Jul-22, CIMB's RA loans make up 3% of Group gross loans. This shows a marked rundown from Apr-22, where it occupied 5% of Group loans. Areas of notable reductions were the Malaysian consumer book, as well as the Thai consumer and corporate book. Indonesian and Singaporean RA loan portfolios were much stickier.

The rate of +30dpd loans exiting the PEMULIH scheme have gone up to slightly above 6%, from 2% in the last quarter. Delinquency rates remain below pre-pandemic levels. The Group notes excess liquidity from recent EPF withdrawals schemes may have distorted the repayment rates, hence stressing the need for potential overlays.

Asset quality. In the quarter, the Group's GIL ratio rose to 3.55% (1QFY22: 3.44%). The slight uptick was due to the Malaysian consumer portfolio, as RA loans graduate. The Group's LLC currently stands at 99.6%. The Group intends to further increase the number in the coming quarters. This further reduces the likelihood of major provision writebacks in the near-term.

Provisioning. CIMB reported a low NCC of 48bps for the quarter, which averages a low 39bps in 1HFY22 (last quarter saw a significant writeback in commercial O&G sector in Singapore). Consequently, the Group has reduced its FY22 NCC guidance to 50-60bps from its initial target of 60-70bps. The reduced NCC guidance factors in 3.6-3.8% GIL on a Group level.

The new NCC guidance remains on the high side. CIMB justifies this by pointing to potential macroeconomic overlay refreshes in the latter part of 4QFY22, as well as uncertainty surrounding hiking interest rates affecting recent RA loan graduates.

Cumulative overlays have increased to RM2.7b from RM2.5b in 1QFY22. Management intends to either maintain or increase the current level, already factoring some degree of utilisation within the year. No writebacks are expected due to lengthy watch periods surrounding RA loan graduations, which will be >12 months following the resumption of RA loan repayment.

NIM and NII. NIM expanded by +2bps qoq, falling -4bps yoy to 2.47% in 2QFY22. On a sequential quarter basis, the increase was largely driven by the implementation of Indonesia's excess liquidity during the quarter. Other segments remained muted: Malaysia NIM improvement was offset by a reclassification of PIDM charges worth RM15m (2bps Malaysian NIM), in an effort to realign Malaysia's accounting policy with the rest of its region.

It averaged 2.46% in 1HFY22, falling -4bps on a sequential year basis. This was largely due to a compression in Indonesian markets, as result of excess liquidity towards 2HFY21 (which has since been utilised).

FY22's NIM guidance remains +-5bps from FY21's 2.45%, though management believes it will be toward the higher end. NIM expansion will be driven by improvements in Malaysian margins, offset by contraction by the remainder of its foreign markets. Tailwinds to NIM include: (1) July OPR hike, as well as 2 further OPR hikes expected by management in CY22, (2) Excess liquidity deployment in Indonesia, in an effort to mitigate COF pressure.

Quarterly NII was more positive, rising by +3.6%yoy and +3.6%qoq, as higher loan growth nullified lower NIM on a sequential year basis.

Mod loss unwinding. Note CIMB's more muted NIM increase in a sequential quarter basis compared to its large cap peers: CIMB attributes it to lesser quantum of mod loss rewinding being experienced. This was due to CIMB's smaller holdings of hire purchase loans (Hire purchase loans were primary segment affected by mod loss).

Mod loss unwinding is expected to be a lengthy 3–4-year process, unwinding amounts less and less material farther into the future.

NOII. 2QFY22's NOII rose by 1.9%yoy, 1.9%qoq. Lacklustre investment and trading gains were largely offset by strong improvements in foreign fee income, as well as sharp increases listed under "other income". 1HFY22's NOII did fall by -4.8%yoy on the back of poorer investment income.

"Other income" (under NOII) did see a sharp increase in the quarter, as CIMB recorded a sizeable corporate recovery and NPL sale in CIMB Niaga. This is due to a difference in accounting treatments: this would normally be reflected as loan writebacks in other regions.

Loan growth. Gross loans expanded at a fast pace of +6.8%yoy. Core drivers to loan growth include the consumer segment across all markets and wholesale segments in Malaysia, Indonesia, and Thailand. The quarter saw CIMB Niaga deploying a fair chunk of its excess liquidity (which has lingered in the past few quarters) in funding rapid consumer and high-quality corporate loans, bringing up its L/D ratio to 81% from 76% in last quarter.

As a result, CIMB has increased their FY22 guidance to 6-7%, from 5-6% initially. Following CIMB's multi-year loan restructuring programme, consumer loans have increased to 53% of total loan portfolio, from Dec-19's 50%, all while it continues to pare down on its foreign commercial and wholesale loans.

The unwinding of Thai and Indonesian commercial portfolios as part of CIMB's loan restructuring programme are close to plateauing. Notably, Thailand saw its first quarter of positive loan growth following its active exit from the commercial market.

Deposit growth and funding. Group deposit reported similarly strong growth, rising at a rate of +7.3%yoy, with strong foreign performances offsetting Malaysia's lacklustre +2.6%yoy growth. CASA growth stands at 42.3%, declining from 1QFY22's 43.5%. While CASA growth is still strong in Indonesia, Malaysia's consumer CASA segment is facing attrition following enhanced spending activity, depleting CASA balances.

Nevertheless, management is less worried about funding as it believes the market is still flushed with liquidity, with FD pricing remaining rational across all buckets. As with its peers, it will be actively trying to lengthen its FD duration to the 12–18-month bucket.

Cost efficiency. 2QFY22's OPEX rose by a muted +1.0%qoq and fell -4.3%yoy, as the effects of its cost-optimisation efforts fully kick-in, resulting in reduced establishment and admin costs offsetting higher personnel, marketing and IT spend. 1HFY22's OPEX fell by -2.5%yoy.

CIMB reported an improved cost/income ratio (CIR) of 47.1% in 2QFY22, [1QFY22: 48.1%, 2QFY21: 52.0%]. This averages to 47.6% in 1HFY22 [1HFY21: 50.1%]. Going forward, OPEX is expected to experience low-single digit growth, while total income growth should be tier higher. This is in line with the Group's FY24 target of <45%.

Capital ratios. The Group's CET-1 ratio has fallen to 13.9% from last quarter's 14.5%. Management attributes it to higher FVOCI losses and dividend payouts. Notably, the Group have reduced their Dividend Reinvestment Scheme (DRS) investable portion from 100% to 80%. The Group's RWA optimisation procedure is not expected to yield any material change in capital ratios in 2023.

Dividend announced. CIMB announced a gross DPS of 13.0 sen, which translates to a dividend payout of 50%, which was in line with our expectations.

Earnings revised. We revise FY22/FY23/FY24 earnings forecasts by +11%/+9%/+1% respectively to account for improvement CIR ratios, as well as reduced NCC for FY22 following CIMB's revised guidance.

Key risks. Key risks to earnings include (1) Higher NCC, following unfavourable RA loan graduation outcomes, (2) Volatile NOII figures, (3) Elevated COF following CASA attrition across the region.

Valuation and recommendation. We are upbeat on CIMB's future prospects for several reasons: (1) Its regional presence offers an effective buffer to country-specific pressures (most notably, on NOII), (2) CIMB Niaga has recently deployed its excess liquidity to promising results, with a pipeline of high-quality corporate loans still expected in 2HFY22, (3) Thai and Indonesian commercial loan restructuring is close to plateauing, removing loan contraction pressure on those regions, (4) The effects of cost optimisation exercise have so far been very promising, and is well in line with the Group's CIR and ROE targets.

Thus, we maintain our **BUY** call with a higher **TP of RM6.16**, as we peg its FY23 BVPS to a unchanged P/BV of 0.95x following our revision to earnings forecasts. (GGM assumptions: FY23 ROE of 9.6%, LTG of 3.5% and COE of 10.0%.)

EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (RM m)	2QFY22	1QFY22	2QFY21	Yoy (%)	Qoq (%)	1HFY22	1HFY21	Yoy (%)
Net interest income	2,822	2,720	2,757	2.4%	3.7%	5,542	5,421	2.2%
Islamic banking income	954	947	883	8.0%	0.8%	1,902	1,772	7.3%
Other operating income	1,108	1,069	981	12.9%	3.7%	2,177	2,182	-0.2%
Net income	**4,884**	**4,736**	**4,622**	**5.7%**	**3.1%**	**9,620**	**9,375**	**2.6%**
OPEX	(2,300)	(2,278)	(2,403)	-4.3%	1.0%	(4,577)	(4,693)	-2.5%
PPOP	**2,585**	**2,459**	**2,219**	**16.5%**	**5.1%**	**5,043**	**4,682**	**7.7%**
Loan allowances	(455)	(287)	(652)	-30.2%	58.6%	(743)	(1,368)	-45.7%
Other allowances	(26)	(137)	(12)	n.m.	n.m.	(163)	(52)	n.m.
Others	-	0	-	n.m.	n.m.	0	1,156	n.m.
JV & Associates	2	13	23	-93.3%	-88.1%	14	58	-75.1%
Profit before tax	**2,105**	**2,048**	**1,578**	**33.4%**	**2.8%**	**4,153**	**4,475**	**-7.2%**
Tax & zakat	(781)	(580)	(466)	67.4%	34.6%	(1,361)	(889)	53.1%
NCI	(43)	(40)	(27)	59.4%	6.7%	(84)	(45)	86.8%
Reported net profit	**1,281**	**1,427**	**1,084**	**18.1%**	**-10.3%**	**2,708**	**3,541**	**-23.5%**
Core net profit	**1,325**	**1,472**	**1,280**	**3.5%**	**-10.0%**	**2,709**	**2,616**	**3.5%**
Total NII	**3,675**	**3,549**	**3,549**	**3.6%**	**3.6%**	**7,224**	**6,969**	**3.7%**
Total NOII	**1,211**	**1,188**	**1,188**	**1.9%**	**1.9%**	**2,399**	**2,521**	**-4.8%**
Gross DPS (sen)	**13.0**	**-**	**-**	**n.m.**	**n.m.**	**13.0**	**-**	**n.m.**
Core EPS (sen)	**12.8**	**14.4**	**12.9**	**-0.1%**	**-10.8%**	**26.3**	**26.3**	**0.0%**
Gross loans	394,307	384,721	369,173	6.8%	2.5%			
Gross impaired loans	13,983	13,243	12,693	10.2%	5.6%			
Customer deposits	420,937	420,849	403,051	4.4%	0.0%			
CASA	186,703	190,640	174,211	7.2%	-2.1%			

Source: CIMB, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	2QFY22	1QFY22	2QFY21	Yoy (+/- ppts)	Qoq (+/- ppts)	1HFY22	1HFY21	Yoy (+/- ppts)
NIM (Reported)	**2.47**	**2.45**	**2.51**	**-0.04**	**0.02**	**2.46**	**2.50**	**-0.04**
NOII/Total income	24.8	25.1	25.7	-0.9	-0.3	24.9	26.9	-2.0
ROE (Ann.)	**8.8**	**9.8**	**8.8**	**0.0**	**-1.1**	**8.8**	**8.8**	**0.0**
Cost-to-income ratio	47.1	48.1	52.0	-4.9	-1.0	47.6	50.1	-2.5
Net credit costs (Ann.) (bps)	48	31	71	-23	17	39	74	-35
GIL ratio	3.55	3.44	3.44	0.11	0.10			
Loan loss coverage	99.6	102.1	102.2	-2.6	-2.5			
L/D ratio	90.3	88.2	88.4	1.9	2.1			
CET1	13.9	14.5	13.0	0.9	-0.6			
Tier-1	14.7	15.4	14.0	0.7	-0.7			
Total Capital	17.5	18.3	17.0	0.5	-0.8			

Source: CIMB, MIDFR

EXHIBIT 3: REVISED FY22 GUIDANCE

Final Remarks

- Positive 1H22 performance driven by higher topline and lower provisions. Muted 2Q22 net profit growth as we took a prudent view on MEF and overlays
- Deriving benefits of our diversification efforts across ASEAN with focused investments and portfolio reshaping
- We maintain a cautious stance for the second half of the year in view of various macroeconomic headwinds
- Nevertheless, the Group remains optimistic of a better financial performance for the year and are on track to exceed our 2022 targets
- The Group will continue to execute Forward23+ strategies building on the positive asset growth momentum, contained cost escalations and moderate credit cost

	1H22 BAU	FY22 Guidance	FY22 Targets	FY24 Forward23 + Ambition
ROE * (Reported)	9.1%	8.0-9.0%	7.5-8.0%	Top quartile (11.5-12.5%)
ROE *^	10.4%	9.0-10.0%	8.5-9.0%	
Dividend Payout Ratio	50%~	40-60%	40-60%	40-60%
Total Loan Growth	6.8%	6-7%	5-6%	In line with market
Cost to income	46.5%	<48.0%	<49.0%	≤45%
Loan Loss Charge *	41bps	50-60bps	60-70bps	50-60bps
CET 1 (CIMB Group)	14.1%	>13.5%	>13.0%	>13.5%

*Notes: * Annualised*
^ Excluding cukai makmur
~ Based on reported net profit

Source: CIMB, MIDFR

INVESTMENT STATISTICS

INCOME STATEMENT

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest income	17,742	16,096	18,097	19,720	21,419
Interest expense	(7,702)	(5,221)	(6,810)	(7,980)	(9,120)
Net interest income	**10,039**	**10,874**	**11,287**	**11,740**	**12,299**
Islamic banking income	2,915	3,533	3,710	3,866	4,013
Other operating income	4,033	3,955	4,283	4,891	5,668
Total income	**16,987**	**18,362**	**19,281**	**20,497**	**21,979**
OPEX	(8,775)	(9,419)	(9,351)	(9,941)	(10,660)
PPOP	**8,212**	**8,944**	**9,930**	**10,556**	**11,319**
Loan allowances	(5,342)	(2,614)	(2,325)	(2,232)	(1,697)
Other allowances	(1,456)	(1,759)	(379)	(393)	(311)
JV & Associates	117	68	25	24	26
Pretax profit	**1,530**	**4,639**	**7,250**	**7,955**	**9,338**
Taxation and zakat	(384)	(1,397)	(2,175)	(1,989)	(2,334)
NCI	48	(97)	102	119	140
Reported net profit	**1,194**	**3,145**	**5,177**	**6,086**	**7,143**
Core net profit	**1,194**	**4,648**	**5,177**	**6,086**	**7,143**
Total NII	12,725	13,958	14,701	15,220	15,790
Total NOII	4,464	4,414	4,580	5,278	6,189

BALANCE SHEET

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Cash and ST funds	43,126	50,283	51,753	52,797	53,862
Investment securities	146,876	156,728	152,714	153,263	156,557
Net loans	353,916	364,685	382,256	399,937	419,525
Other IEAs	6,833	5,885	7,063	8,122	9,097
Non-IEAs	51,604	44,325	44,237	49,912	50,684
Total assets	**602,355**	**621,907**	**638,023**	**664,030**	**689,726**
Customer & bank deposits	437,521	463,547	478,731	497,487	515,274
Other IBLs	68,145	63,834	64,235	63,681	64,344
Non-IBLs	39,515	34,417	32,193	36,396	39,124
Total liabilities	**545,181**	**561,798**	**575,160**	**597,565**	**618,742**
Share capital	25,844	27,100	27,100	27,100	27,100
Reserves & retained profit	30,082	31,764	34,395	37,930	42,364
Shareholders' funds	**55,926**	**58,863**	**61,495**	**65,030**	**69,464**
Perpetual preference shares	200	200	200	200	200
NCI	1,048	1,045	1,168	1,236	1,320
Total equity	**57,174**	**60,109**	**62,863**	**66,465**	**70,983**
Total liabilities & equity	**602,355**	**621,907**	**638,023**	**664,030**	**689,726**
Total IEAs	550,751	577,582	593,785	614,119	639,041
Total IBLs	505,666	527,381	542,966	561,169	579,618
Gross loans	365,844	378,033	396,934	414,796	433,462
CASA	168,754	186,052	190,911	197,007	203,058

FINANCIAL RATIOS

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest (%)					
NIM	2.26	2.38	2.43	2.43	2.41
Return on IEAs	3.30	2.85	3.09	3.27	3.42
Cost of funds	1.56	1.01	1.27	1.45	1.60
Net interest spread	1.74	1.84	1.82	1.82	1.82
Profitability (%)					
ROE	2.1	8.1	8.6	9.6	10.6
ROA	0.2	0.8	0.8	0.9	1.1
NOII/Total income	26.3	24.0	23.8	25.7	28.2
Effective tax rate	25.1	30.1	30.0	25.0	25.0
Liquidity & Efficiency (%)					
Cost-to-income ratio	51.7	51.3	48.5	48.5	48.5
Loan/Deposit ratio	87.8	86.3	87.4	87.9	88.9
CASA ratio	41.9	44.0	43.7	43.3	43.0
Asset Quality (%)					
GIL ratio	3.56	3.51	3.70	3.50	3.14
NIL ratio	1.74	1.53	1.71	1.61	1.41
LLC ratio	91.7	100.3	99.9	99.9	99.8
LLC (incl. reserves)	93.5	101.3	100.6	100.6	111.7
Gross credit cost (bps)	160	88	74	69	54
Net credit cost (bps)	145	70	60	55	40
% Floating rate loans	84	82	83	84	84
% Domestic loans	62	63	64	64	63
Capital (%)					
CET 1	14.5	15.1	14.5	14.3	14.2
Tier 1 capital	14.5	15.1	14.5	14.3	14.2
Total capital	17.5	18.0	17.3	17.3	17.1
Growth (%)					
Total NII	0.5	9.7	5.3	3.5	3.7
Total NOII	(13.1)	(1.1)	3.8	15.2	17.3
Core net profit	(76.2)	289.3	11.4	17.6	17.4
Gross loans	(0.9)	3.4	5.0	4.5	4.5
Customer deposits	2.7	4.8	3.5	4.1	3.7
CASA	22.6	10.3	2.6	3.2	3.1
Valuation metrics					
Core EPS (sen)	11.9	46.4	51.7	60.7	71.3
Gross DPS (sen)	4.8	23.0	25.8	30.4	35.6
Div payout ratio (%)	40.0	49.6	50.0	50.0	50.0
BVPS (RM)	5.6	5.9	6.1	6.5	6.9
Core P/E (x)	45.1	11.6	10.4	8.8	7.5
Dividend yield (%)	0.9	4.3	4.8	5.7	6.6
P/BV (x)	1.0	0.9	0.9	0.8	0.8

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology