Company Update | Friday, 23 September 2022

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

***Maintain* BUY**

Good progress, but still lagging

***Unchanged* Target Price: RM6.16**

KEY INVESTMENT HIGHLIGHTS

- **CIMB has made good progress in developing its ESG framework and policies.**
- **However, we feel that it lags industry leaders, having not gone full swing into execution.**
- **Key risks: Higher-than-expected NCC, Volatile NOII figures, CASA attrition leading to higher COF**
- **Maintain BUY call with unchanged TP of RM6.16**

Highlights from CIMB's Sustainability Corporate Day:

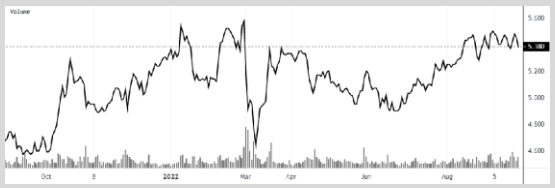
1. CIMB expands its negative screening policies to include (a) Mining & Quarrying, and (b) Carbon-intensive and labour-intensive manufacturing.
2. Group Human Rights policy (which embeds Human Rights requirements in its financing guidelines) approved in Malaysia, to be implemented in other regions by 2023.
3. 2024 Sustainable finance target revised to RM60b (from RM30b).
4. Net zero GHG emissions target on track. The Group includes an internal penalty for every GHG emission (by tonne) exceeding its internal target. This will be progressively increased towards 2030.
5. Interim climate targets introduced for coal and cement in 2030 and 2040. The plan is to phase out coal exposure, while reducing cement sector's emission intensity.
6. Though making good effort, CIMB seems to be lagging industry leaders, as most of its efforts are still centred around hammering out its framework as opposed to actual execution. Disclosure is also less comprehensive.

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)	45.2	11.6	10.4	8.9	7.5
Gross DPS (sen)	4.8	23.0	25.8	30.4	35.6
Dividend yield (%)	0.9	4.3	4.8	5.6	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 @ 22 September 2022 (RM)	5.38
Expected share price return (%)	+14.6
Expected dividend yield (%)	+4.8
Expected total return (%)	**+19.4**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.3	4.6
3 months	8.5	9.1
12 months	12.1	19.0

KEY STATISTICS	
FBM KLCI	1,439.16
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	10698.48
Estimated free float (%)	31.49
Market Capitalisation (RM'm)	56,351.48
52-wk price range	RM4.65 - RM5.75
Beta vs FBM KLCI (x)	1.20
3-mth average daily volume (m)	10.53
3-mth average daily value (RM'm)	55.71
Top Shareholders (%)	
Khazanah Nasional Bhd	24.50
Employees Provident Fund Board	24.29
Amanah Saham Nasional Bhd	10.29

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As part of its Cooler Earth conference, CIMB updated us on its sustainability progress. Here are some highlights:

Negative screening policies expanded. *Negative screening refers to finding and excluding "unsustainable" companies from its investment portfolio.*

CIMB formerly listed 5 high risk sectors: (1) Palm Oil, (2) O&G, (3) Forestry, (4) Construction & Infrastructure, and (5) Coal. It has since included 2 new sectors: (1) ***Mining & Quarrying,*** and (2) ***Manufacturing*** (specifically for carbon-intensive and labour-intensive products).

It has also approved its ***Group Human Rights policy*** in Malaysia, where it embeds Human Rights requirements into financing guidelines. These will be implemented in its other core regions by 2023. Non-Deforestation, No Peat and No Exploitation commitments (NDPE) will be rolled out in the majority of operating regions by end-2022.

Sustainable finance target revised upwards. CIMB originally targeted RM30b towards sustainable finance by 2024. The goal has already been reached in 1HCY22; hence the Group will be revising this target to ***RM60b,*** expanding its offering to include Sustainable Treasury solutions.

Net zero operational GHG emissions target on track. *To reiterate, CIMB's targets include: (1) net zero operational emissions (Scope 1 & 2) by 2030 (2019 baseline), and (2) Net Zero GHG by 2050 (incl. Scope 3).*

So far, CIMB has reduced its direct emissions by 24% in 2021 – note, however, this has been temporarily aided by lower energy consumption and carbon footprint due to pandemic WFH arrangements. The Group will strive for a sustainable reduction in emissions by 25% by 2024. As an additional disincentive, the Group has implemented an Internal Carbon Price per tonne of GHG emissions exceeding reduction target (in the event the Group fails to achieve its targets). The price is currently RM70 per tonne for 2022-2023 but will be progressively increased to reach up to RM335 to 2030.

Interim climate targets introduced for coal and cement. With 2050 still far off, the Group has set goals to be achieved by 2030 and 2040. So far, the Group has introduced targets for 2 sectors: (1) Thermal coal, and (2) Cement. Targets for other sectors will be introduced by CY23.

In the case of thermal coal, the priority is to ***halve thermal coal mining exposure by 2030*** (2021 is the base year), before zerorising in 2040. Given cement's necessity in manufacture and construction, CIMB instead strives to ***reduce the cement sector's emission intensity*** by 36% to 0.46 tCO2e/t cement by 2030. (Again, 2021 is the base year.)

CIMB seems to be progressing well in its ESG journey, though far from the best. In terms of ESG, CIMB remains one of the better local picks. Nonetheless, we still feel that CIMB's targets remain very broad-based and unnuanced, with less focus on engaging with clients on its emission reduction efforts than we prefer. While certain banks have shifted most of their efforts on execution, CIMB still seems to be etching out its framework. Additionally, its disclosure on its sustainable financing activity is lacklustre, lacking information even on C1-5 loans. Nonetheless, the Group's Employee Diversity & Inclusion Policy seems to be yielding good results. 42% of leadership positions are taken up by females, while the gender pay ratio is roughly equal.

Earnings maintained. We make no changes to our earnings forecast.

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 remain upbeat on CIMB's future prospects for several reasons: (1) Its regional presence offers an effective buffer to country-specific pressures, (2) CIMB Niaga offers a proxy to the lucrative Indonesian market, (3) Thai and Indonesian markets should see less loan contraction pressure, following the end of their loan restructuring exercises, (4) The effects of cost optimisation exercise have so far been very promising. Thus, we maintain our **BUY** with a unchanged **TP of RM6.16**, as we peg its FY23 BVPS to an 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%.)

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)	45.2	11.6	10.4	8.9	7.5
Dividend yield (%)	0.9	4.3	4.8	5.6	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