Company Update| Tuesday, 01 November 2022

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

Maintain BUY

On track to achieve FY22 ROE targets

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

KEY INVESTMENT HIGHLIGHTS

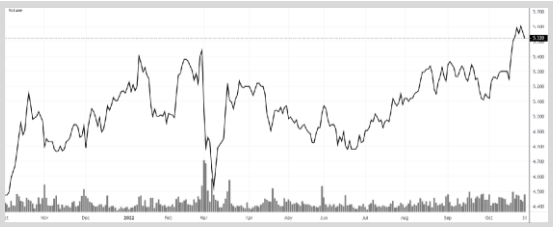
- **CIMB still on track to achieve its FY22 ROE target**
- **Maintaining our earnings forecast for now**
- **Core drivers: (1) CIMB Niaga has good growth potential, (2) Cost optimisation and loan book rebalancing exercises give it a good platform to elevate ROE from pre-pandemic times**
- **Key risks: (1) Persistent NOII volatility, (2) Steeper-than-expected CASA attrition, (3) Higher credit costs**
- **Maintain BUY call with unchanged TP of RM6.16**

RETURN STATISTICS	
Price @ 31 October 2022 (RM)	5.52
Expected share price return (%)	+11.7
Expected dividend yield (%)	+5.5
Expected total return (%)	**+17.2**

Highlights from CIMB's 3QFY22 pre-closed period call

1. FY22 ROE target of 8-9% intact – kitchen sinking exercise and loan book restructuring offsets headwinds.
2. FY22 NCC guidance of 50-60bps still viable. Expect higher provisions in coming quarters reflecting a downgrade of economic outlook. Management aims to keep current stock of overlays until year end.
3. NIM expected to peak in 3QFY22, while deposit competition expected to plateau in 2QFY23 or 3QFY23.
4. NIM outlook is neutral to positive in 2022, but unlikely to be sustained in 2023. SRR changes immaterial.
5. Poor NOII outlook going forward – lumpy benefits in 1HFY22 unlikely to be repeated going forward.
6. Cost inflation is not significant. FY22's cost increase expected to remain in the low single-digit range, thanks to kitchen sinking.
7. CGS-CIMB exit effects will come into effect in 1QFY23 – Associate contributions will no longer come through by then. No material gain/loss expected.
8. CIMB Niaga may be listing its Islamic side as a separate entity – no changes to ROE or capital on a group level.

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	9.6	4.3
3 months	9.6	9.9
12 months	7.7	14.8

KEY STATISTICS	
FBM KLCI	1,460.38
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	10698.48
Estimated free float (%)	42.85
Market Capitalisation (RM m)	59,937.87
52-wk price range	RM4.72 - RM5.75
Beta vs FBM KLCI (x)	1.14
3-mth average daily volume (m)	14.33
3-mth average daily value (RM m)	76.87
Top Shareholders (%)	
Khazanah Nasional Bhd	24.06
Employees Provident Fund Board	13.87
ASNB	10.11

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)	46.6	12.0	10.7	9.1	7.8
Gross DPS (sen)	4.8	23.0	25.8	30.4	35.6
Dividend yield (%)	0.9	4.1	4.7	5.5	6.4
BVPS (RM)	5.6	5.9	6.1	6.5	6.9
P/BV (x)	1.0	0.9	0.9	0.9	0.8
ROE (%)	2.1	8.1	8.6	9.6	10.6

Analyst
Samuel Woo
samuel.woo@midf.com.my
03-2173 1669

CIMB hosted their 3QFY22 pre-closed period call yesterday. Here are some highlights:

ROE targets still intact. CIMB maintains its FY22 ROE target of 8-9%. Regardless of headwinds, it is confident that steps taken over the course of the pandemic – cost optimisation, loan book restructuring – as well as its current FY22 guidance being intact as good indicators that earnings target will be met.

Credit cost guidance intact. NCC guidance for FY22 should be still within management's guidance 50-60bps.

With 1HFY22's NCC skewed towards the lower end, management intends to take a more conservative approach to management overlays and specific segment top-ups in both quarters remaining in the year. CIMB will keep their current stock of overlays until year end, topping up any balance reductions from utilisation and write-offs.

Provisions outlook for the remainder of the year is unchanged, as not much change is expected. Further provisions will likely stem from macro issues reflecting a downgrade of economic outlook, rather than issues stemming from specific brackets/names.

RA loan graduation trend still promising. No significant moves have been observed in RA loans – as it was in 2QFY22, RA loans make up 3% of total loan book, while 6% of loans exiting moratorium have missed payments.

The Group is confident of its outlook, believing rising delinquency rates to be manageable. More importantly, it has since reduced its large corporate and business banking (of the commercial sector) holdings. These were vulnerable segments that the Group faced issues with previously.

In light of uncertain economic outlook, the Group has been actively growing its loan base in segments it feels more comfortable in.

Writebacks over the course of 2023. CIMB implements a 12-month waiting period for recent RA loan graduates, upon completion will result in an automatic writeback of provisions. With the brunt of PEMULIH RA programmes coming of in 1HFY22, expect 2023 to be the end of the waiting period.

Interesting trends in pockets of delinquency. Of the loans still in RA programmes, close to 40% belong in the T20 segment, while 35% belong in B40, skewing the population towards the T20 end. Although the pandemic has hit the entire spectrum of individuals, the upcoming downturn of economy will pressure the B40 more than T20. At the same time, a segment of T20 has not recovered significantly from the pressure of the last couple of years.

Hence going into this downturn both T20 and B40 RA borrowers will likely be equally affected.

NIM expansion unlikely sustainable in 2023. Positive tailwinds to Malaysian and Singaporean NIMs, as well as Indonesia deploying excess liquidity has led to good improvement in NIM. For now, this offers sufficient cushion to weather deposit competition coming about in Singapore, Thailand and Malaysia. The full impact is expected to come in 2023.

Thus, in FY22, Thailand, Singapore and Indonesian NIM outlook remains broadly neutral. (Note that Indonesia could have widened NIM by raising its loan yields but opted not to do so). Malaysia sees a positive NIM outlook, earning a RM80-100m uplift (+2bps NIM at Group level) for every +25bps OPR hike. NIM outlook for 2023 is much bleaker.

NIM impact from SRR changes are expected to add insignificant pressure of NIMs, with no issue to liquidity.

NIM to peak in 3Q? The Group believes NIM should reach its peak in 3QFY22. There is a slim chance it may be in 4QFY22, depending on when deposit competition stabilises. Management also believes that deposit competition will start plateauing in 2QFY23 or 3QFY23.

Thus far, the Group has raised its deposit rates by 5-15bps (depending on segment & duration) to meet its trajectory of deposit competition. CASA attrition continues to ramp up, with MY consumer segment continuing its attrition from 2QFY22, while MY SME has begun in 3QFY22.

Tepid NOII outlook going forward. NOII in 1HFY22 was buoyed by lumpy fee income performances (coming from Malaysian & Singapore wholesale segment). Additionally, Niaga's lumpy NPL and loan sale (which is recorded under "Other Income" in NOII segment) offered some stabilisation benefits. 2HFY22 is not expected to benefit from such lumpy events, while trading and FX income are expected to remain stable on a sequential quarter basis.

Cost inflation not significant. Management expects to see some cost increase in 3QFY22 on a sequential quarter basis. However, its expectation of FY22 cost increase from last year is to remain in the low single-digit range.

CGS-CIMB exit. CIMB's proposed move to relinquish its remaining 25% stake in CGS-CIMB will be conducted via call and put option subscriptions and will come into effect into 1QFY23. As such, the accounting for Associate contributions will continue until the effective exit date.

There will not be any material gain/loss given that 100% of the gain was already recognised upfront for the initial 50% disposal – only some currency translation adjustment on the original book value which will be relatively immaterial.

Separate Islamic unit for Niaga. CIMB Niaga is being pressured by regulators to have its Islamic operations listed and structured as a separate entity. While discussions are ongoing, there is already a set timeframe.

No capital impact or ROE dilution is expected on a group level.

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

Key risks. Key risks to earnings include (1) Persistent NOII volatility, (2) Steeper than anticipated CASA attrition, (3) Higher credit costs stemming from worse-than-expected macro-outlook.

Valuation and recommendation. CIMB's FY23 outlook is uncertain – issues with NOII, further provision allocations as result of poor economic outlook, CASA attrition and deposit competition plague its future.

Nonetheless, CIMB's valuations remain attractive, not yet reflecting the Group's improved ROE generating potential. Regardless of upcoming headwinds, the Group's cost optimisation exercise and loan book rebalancing gives it a good platform to achieve an improved ROE from pre-pandemic times, warranting a positive rerating. Additionally, CIMB Niaga still has much growth potential.

Thus, we maintain our **BUY call** with an unchanged **TP of RM6.16**, as we peg its FY23 BVPS to an unchanged P/BV of 0.95x. (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)	46.6	12.0	10.7	9.1	7.8
Dividend yield (%)	0.9	4.1	4.7	5.5	6.4
P/BV (x)	1.0	0.9	0.9	0.9	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