CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

Maintain BUY

Good OPEX control

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

KEY INVESTMENT HIGHLIGHTS

- **Earnings were within our expectations**
- **Maintaining our earnings forecast for now**
- **Core drivers: CIMB Niaga as a proxy to lucrative Indonesian market, Loan restructuring is close to an end, Cost optimisation exercise should benefit ROE**
- **Key risks: Inability to control OPEX, Elevated NCC, Inconsistent NOII**
- **Maintain BUY call with unchanged TP of RM6.16. Note that the stock has been nearly priced in**

Highlights from CIMB's 3QFY22 quarterly results:

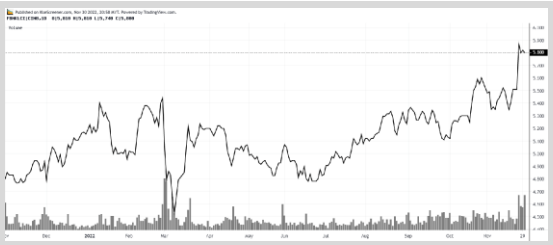
1. CIMB's YTD earnings of RM1.4b rose by +7%yoy due to improved NII and lower NCC.
2. RA loans remain at 3% of gross loans – there were rundowns on Thai side, while Indonesia saw uptick.
3. GIL improved to 3.49%, with LLC flattish at 99.9%.
4. NCC of 50bps in the quarter, bringing 9MFY22's average to 42bps. Expect higher overlays in next quarter.
5. 3QFY22's NIM rose by +8bps qoq, riding on NIM expansions in Malaysia and Singapore.
6. 3QFY22's NOII down by -9%qoq. Hit by absence of NPL sale gains, as well as write downs of legacy investments.
7. Solid loan growth: gross loans grew by +9%yoy, driven by Indonesian market primarily.
8. Deposit growth of lacklustre +2.5%yoy, though impressive +1.6%qoq. Singapore a core driver of growth.
9. 3QFY22's BAU OPEX showed muted growth of +1.2%qoq.

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)	48.7	12.5	11.2	9.6	8.1
Gross DPS (sen)	4.8	23.0	25.8	30.4	35.6
Dividend yield (%)	0.8	4.0	4.5	5.2	6.1
BVPS (RM)	5.6	5.9	6.1	6.5	6.9
P/BV (x)	1.0	1.0	0.9	0.9	0.8
ROE (%)	2.1	8.1	8.6	9.6	10.6

RETURN STATISTICS	
Price @ 30 November 2022 (RM)	5.80
Expected share price return (%)	+6.3
Expected dividend yield (%)	+5.2
Expected total return (%)	**+11.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	4.3	1.6
3 months	13.1	8.4
12 months	13.5	15.5

KEY STATISTICS	
FBM KLCI	1488.80
Syariah compliant	No
F4GBM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	10698.48
Estimated free float (%)	43.90
Market Capitalisation (RM m)	61,857.59
52-wk price range	RM4.72 - RM5.9
Beta vs FBM KLCI (x)	1.10
3-mth average daily volume (m)	16.77
3-mth average daily value (RM m)	90.97
Top Shareholders (%)	
Khazanah Nasional Bhd	24.59
Employees Provident Fund Board	13.54
ASNB	13.53

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Within our and consensus expectations. CIMB's 9MFY22 core net profit of RM4.1b made up 79% and 76% of full-year forecasts respectively.

YTD earnings rose by +7%yoy due to improved NII and lower NCC offsetting the effects of higher tax.

Quarterly earnings of RM1.4b rose by +7%qoq, with improved NII offsetting weaker NOII and loan charges.

Repayment assistance (RA) loans. As of Sep-22, 3% of CIMB's gross loan portfolio were RA loans. Previously, in of Jul-22, this figure was also 3% -- however, there were notable rundowns in the Thai portfolio, while Indonesia's RA loan holdings went upwards. There were notable run-offs in the commercial and corporate segments, primarily.

Asset quality. The Group's GIL ratio improved to 3.49% (2QFY22: 3.55%) – this was likely write-offs concerning its restructuring exercises in Indonesia and Thailand.

The Group's LLC currently stands at 99.9%, relatively flattish from last quarter. The Group does intend to build it further, so expect higher provisioning allocations in the coming quarters.

Provisioning. Group reported a NCC of 50bps in the quarter, bringing 9MFY22's average to 42bps. Higher overlays are expected in the following quarter, as management intends to refresh its macroeconomic allocations.

NIM and NII. NIM expanded by +8bps qoq to 2.55% in 3QFY22 and averaged 2.50% in 9MFY22, riding on NIM expansions in Malaysia and Singapore.

Similarly, quarterly NII strengthened to +6%qoq and +9%yoy.

NOII. 3QFY22 NOII fell by -9%qoq as result of absence of NPL sale gains (in last quarter), as well as write downs of legacy investments.

Loan growth. Gross loans expanded at a solid pace of +9%yoy. While most regions reported solid growth, Indonesia was the stand-out, offset by lacklustre performances in Thailand, following its loan exit from the commercial market.

Deposit growth. Group deposit growth was at a lacklustre +2.5%yoy, though it did expand by +1.6%qoq. Malaysia and Indonesia reported net contractions, while Singapore reported strong +21%yoy growth. CASA growth did inch up by +0.3%qoq, likely due to Indonesia contributions. Loan/Deposit ratio rose to 91.9%, upon utilisation of Indonesia's excess funds.

Cost efficiency. OPEX growth was relatively muted, with BAU OPEX reducing by +1.2%qoq in the quarter – notably reporting a slight contraction in personnel costs. 9MFY22 BAU OPEX increased by +2.8%yoy, affected by rising personnel and tech spend.

Excluding one-offs, CIMB's reported a improved cost/income ratio (CIR) of 45.5% in 3QFY22. This averages to 46.1% in 9MFY22, down from 9MFY21's 47.7%.

Capital ratios. The Group's CET-1 ratio remained flattish at a strong 13.9%.

No dividend announced. CIMB typically divvies in the 2nd and 4th quarter.

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

Key risks. Key risks to earnings include (1) Higher-than-expected OPEX, (2) Elevated NCC, (3) Inconsistent NOII.

Valuation and recommendation. We are optimistic on CIMB's long-term prospects for several reasons: (1) CIMB Niaga offers a good proxy to the lucrative Indonesian market, (2) Loan restructuring & exit is close to an end, improving the Group's portfolio, (3) Cost optimisation exercise should see further improvements to ROE from pre-pandemic times.

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

EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (RM m)	3QFY22	2QFY22	3QFY21	Yoy (%)	Qoq (%)	9MFY22	9MFY21	Yoy (%)
Net interest income	2,980	2,822	2,727	9%	6%	8,522	8,148	5%
Islamic banking income	1,066	954	846	26%	12%	2,968	2,618	13%
Other operating income	951	1,108	821	16%	-14%	3,128	3,003	4%
Net income	**4,997**	**4,884**	**4,393**	**14%**	**2%**	**14,618**	**13,768**	**6%**
OPEX	(2,281)	(2,300)	(2,267)	1%	-1%	(6,858)	(6,960)	-1%
PPOP	**2,716**	**2,585**	**2,127**	**28%**	**5%**	**7,760**	**6,808**	**14%**
Loan allowances	(488)	(455)	(529)	-8%	7%	(1,231)	(1,896)	-35%
Other allowances	(23)	(26)	(61)	n.m.	n.m.	(186)	(113)	n.m.
Others	-	-	(1,213)	n.m.	n.m.	0	(57)	n.m.
JV & Associates	(3)	2	9	-134%	-296%	11	67	-83%
Profit before tax	**2,202**	**2,105**	**333**	**562%**	**5%**	**6,354**	**4,808**	**32%**
Tax & zakat	(755)	(781)	(408)	85%	-3%	(2,117)	(1,297)	63%
NCI	(39)	(43)	(25)	55%	-9%	(123)	(70)	75%
Reported net profit	**1,407**	**1,281**	**(101)**	**-1499%**	**10%**	**4,115**	**3,441**	**20%**
Core net profit	**1,413**	**1,325**	**1,221**	**16%**	**7%**	**4,110**	**3,837**	**7%**
Total NII	**3,901**	**3,675**	**3,457**	**13%**	**6%**	**11,125**	**10,426**	**7%**
Total NOII	**1,096**	**1,211**	**936**	**17%**	**-9%**	**3,495**	**3,457**	**1%**
Gross DPS (sen)	**-**	**13.0**	**-**	**n.m.**	**n.m.**	**13.0**	**-**	**n.m.**
Core EPS (sen)	**13.6**	**12.8**	**12.2**	**11%**	**6%**	**39.6**	**38.5**	**3%**
Gross loans	406,004	394,307	372,360	9%	3%			
Gross impaired loans	14,163	13,983	12,575	13%	1%			
Customer deposits	426,401	420,937	426,202	0%	1%			
CASA	187,092	186,703	182,282	3%	0%			

Source: CIMB, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	3QFY22	2QFY22	3QFY21	Yoy (+/- ppts)	QoQ (+/- ppts)	9MFY22	9MFY21	Yoy (+/- ppts)
NIM (Reported)	**2.55**	**2.47**	**2.40**	**0.15**	**0.08**	**2.50**	**2.46**	**0.04**
NOII/Total income	21.9	24.8	21.3	0.6	-2.9	23.9	25.1	-1.2
ROE (Ann.)	**9.1**	**8.8**	**8.4**	**0.7**	**0.3**	**8.7**	**8.6**	**0.1**
Cost-to-income ratio	45.6	47.1	51.6	-5.9	-1.4	46.9	50.6	-3.6
Net credit costs (Ann.) (bps)	50	48	57	-7	2	42	68	-26
GIL ratio	3.49	3.55	3.38	0.11	-0.06			
Loan loss coverage	99.9	99.6	105.1	-5.2	0.3			
L/D ratio	91.9	90.3	84.3	7.6	1.6			
CET1	13.9	13.9	13.1	0.7	0.0			
Tier-1	14.7	14.7	14.1	0.6	0.0			
Total Capital	17.9	17.5	16.9	0.9	0.4			

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)	48.7	12.5	11.2	9.6	8.1
Dividend yield (%)	0.8	4.0	4.5	5.2	6.1
P/BV (x)	1.0	1.0	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