Corporate Update| Friday, 27 January 2023

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

Maintain BUY

NIMs performed better than expected

Unchanged Target Price: RM6.16

KEY INVESTMENT HIGHLIGHTS

- **Maintaining our earnings forecast for now**
- **Core drivers: CIMB Niaga as a proxy to lucrative Indonesian market, Loan restructuring is close to an end, Positive NIM expansion from CIMB Niaga asset yield repricing**
- **Key risks: Inability to control OPEX, Elevated NCC, Inconsistent NOII**
- **Maintain BUY call with unchanged TP of RM6.16**

Highlights from CIMB's 4QFY22 pre-results session:

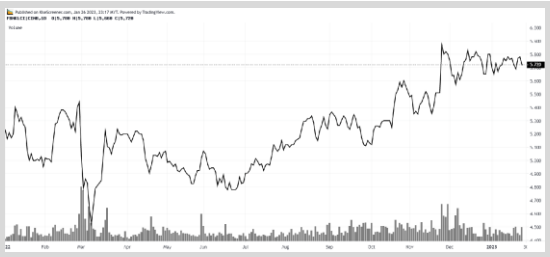
1. Deposit competition was in line with management's expectations. The Group attributes it to the maturity of FDs and subsequent repricing within the quarter, as well as early CNY resulting in more intense seasonal wholesale money market repricing.
2. 4QFY22 NIM could go higher than 3QFY22. Positive asset repricing in Singapore and excess liquidity effects in Indonesia are positive drivers.
3. Expect higher NCC in 4QFY22, but FY22 NCC should fall within management guidance of 50-60bps.
4. NOII to see improvements – stronger fee income and better trading income in 4QFY22 should continue into FY23.
5. Cost inflation, year-end bonuses and accruals will cut into 4QFY22's cost outlook. Cost inflation will remain a big issue in FY23.

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 @ 26 January 2023 (RM)	5.72
Expected share price return (%)	+7.6
Expected dividend yield (%)	+5.2
Expected total return (%)	**+12.8**

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	1,498.39
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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Intense deposit competition – SRR changes not an issue? Deposit competition was in line with management's expectations, remaining as intense as that of 3QFY22. Seasonal competition was especially bad in 2022 – banks also had to contend with the deposits maturing and then being repriced through reapplication in 4QFY22, as well as more intense seasonal wholesale money market repricing (attributable to CNY being celebrated earlier in the year), which was higher than that of previous years. Additionally, there was some pressure from CNY campaigns kicking off on Dec-22.

Management believes that the market is still flushed with liquidity. Note that CIMB does not attribute the intense deposit competition to a liquidity shortage related to a change in SRR regulatory requirements following the end of Dec-22. As it was known to the market, management has taken relevant steps much earlier. Instead, a core contributor to the elevated competition is changes in liquidity profile and duration.

4QFY22 NIM may see some upside. Management suggests that NIM may peak in 4Q rather than the previously suggested 3Q. Several upsides offset the major headwind of COF pressure (which was especially prominent in the local segment). Positive effects stem from margin expansion in Singapore (though it will not carry through into 2023) and Indonesia, which is still benefitting from excess liquidity.

Note that CIMB could still see potential NIM upside from its Indonesian segment in 1QFY23, given that larger Indonesian banks have finally begun to reprice asset yields upwards following central bank interest rate hikes (despite deposits having been repriced many months earlier). This may be offset by ongoing asset portfolio shifts, which favour lower-yielding secured loans (mostly mortgages).

CIMB forecasts two +25bps OPR hikes in 1HFY23. Coupled with a clearing up in deposit competition in 2023, FY23's NIM outlook could be a lot more positive than management expectations.

Higher NCC in 4Q, but asset quality is still within expectations. CIMB will have a pickup in ECL in 4Q due to (1) Higher overlays, (2) Conservative provisioning on the non-retail side (esp. in MY), (3) More provisioning in legacy exposures. FY22 NCC will still fall within the previously guided 50-60bps.

Asset quality saw some slight credit deterioration from the consumer end, though this was well within expectations. No pick-up in delinquency on non-retail side. For RA loans, missed payment portion is close to the pre-pandemic value of 6%.

FY23 loan growth to depend on deposits – liquidity outlook still good. CIMB will base its FY23 loan growth targets on deposit growth rather than loan demand – in short, how many deposits it can attain without irrational pricing.

NOII to see improvements. NOII should see a good pickup in 4QFY22, with stronger fee income from the wholesale side and better trading income. Currency movements did benefit FX income in 4Q.

FY23 should also see good growth in transactional fees and better trading income (with a less aggressive interest rate environment). Management expresses uncertainty on pickup on the investment banking side in 2HFY23.

Cost inflation to cut into earnings. Expect a sharper increase in cost and weaker CIR in 4QFY22: underlying cost escalation, year-end bonuses and adjustments as well as buffers for provisions and accruals will cut into earnings.

Cost inflation issues should persist going into 2023 – sequential year cost growth for FY23 should exceed that of FY22.

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, and (3) Inconsistent NOII.

Valuation and recommendation. Despite near-term headwinds, we are optimistic about CIMB's 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) Possible upside to NIM from Indonesian asset yield repricing.

Thus, we maintain our **BUY** 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)	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