

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

1QFY23 Results

KEY INVESTMENT HIGHLIGHTS

- 1QFY23's Core NP of RM1,645m was *Within/Within* our/street forecasts: **25%/26%** of full-year forecasts
- Core themes: (a) Regional operations to offset subdued MY and SG outlook, (b) Convincing NOII recovery in place, (c) Overlay retention
- FY24F/25F Core NP adjusted by **-2%/-3%**.
- **Maintain BUY | Revised TP of RM5.92 | based on a revised FY24F P/BV of 0.87x (formerly 1.00x, from FY23F)**

Strong quarter, the best performer among peers on quarter-on-quarter basis. Core net profit (NP) rose +24%qoq, with better investment income boosting NOII (+25%qoq), lower OPEX (-6%qoq), normalised tax and lower provisions.

Have a look at:

CIMB's regional strategy is providing benefits. IDR was the standout: it provided strong loan, CASA and NOII growth – its NIM outlook is superior to MY's, and it also hasn't fully repriced loan yields.

TH also can grow CASA, offsetting MY's muted outlook.

We can expect lesser loan compression pressure, as overseas segments come to the tail end of their loan book rebalancing – and see improvements in NIMs as a result.

Overlays writeback to be minimised. Given that BNM has given orders to either get rid of overlays or allocate them as account-specific provisions by end-2023, CIMB has chosen the latter. The intention to hold is to reduce further quarterly NCC, as well as to drive more consistent earnings by scheduled releases, as well as offering headroom to hit loftier ROE targets whenever necessary.

Verdict: +ve risk/reward but be wary of negative repricing sentiment.

- Yays**
1. Niaga outlook intact: Promising loans pipeline offers growth upside, scope for loan yield increase, and strong CASA growth driver.
 2. NOII recovery and build are convincing, especially on Niaga front – the cost trade-off is minor.
 3. NCC outlook is conservative, should management manage to minimise overlay release. Better earnings consistency too.
 4. Less loan contraction pressure as overseas restructuring works should end within the year.

- Nays**
1. Negative sentiment causing cheap valuations: CIMB was highlighted in the MACC-BERSATU newsflow.

- OKs**
1. Possible future driver of digital assets segment: management is alluding to interesting changes in the Philippines.
 2. Further capital optimisation is on the cards.

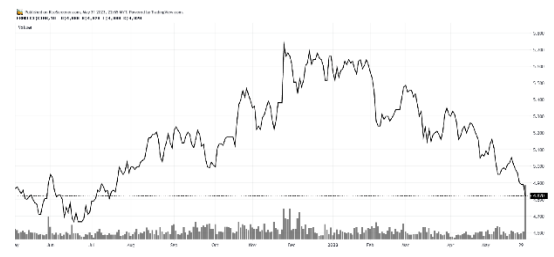
Maintain BUY

Revised Target Price: RM5.92
(Previously RM6.37)

RETURN STATISTICS

Price @ 31 May 2023 (RM)	4.82
Expected share price return (%)	+22.8
Expected dividend yield (%)	+22.8
Expected total return (%)	+29.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.3	-2.8
3 months	-5.5	-5.5
12 months	0.2	9.2

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	6,496	7,044	7,521
CNP growth (%)	17	8	7
Div yield (%)	6.5	7.0	7.5
Gross DPS (sen)	31.2	33.8	36.1
P/BV (x)	0.8	0.7	0.7
BVPS (RM)	6.4	6.8	7.2
ROE (%)	10.1	10.3	10.3
MIDF/Street CNP (%)	102	101	100

KEY STATISTICS

FBM KLCI	1,387.12
Issue shares (m)	10,474.0
Estimated free float (%)	42.2
Market Capitalisation (RM'm)	53,645.5
52-wk price range	RM4.83 - RM5.9
3-mth avg daily volume (m)	10.0
3-mth avg daily value (RM'm)	52.6
Top Shareholders (%)	
Khazanah Nasional Bhd	24.1
EPF Board	14.0
Amanah Saham Nasional Bhd	9.9

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Forecasts revised: FY24F/25F Core NP tweaked by -2%/-3%. For FY24F and FY25F, we increase our costs and NCI expectations. We make changes to NIM, NCC and NOII forecasts for FY23F, but net changes to CNP are negligible.

Key downside risks. (1) Sharp rate hikes in SG portfolio cause funding issues, (2) asset quality worsens, (3) lacklustre loan growth.

Maintain BUY call: Revised GGM-TP of RM 5.92 (from RM6.37). The TP is based on a revised FY24F P/BV of 0.87x (formerly 1.00x, rolled on from FY23F), to reflect altered earnings prospects and ROE-based valuations. We offer a discount for MACC-BERSATU negative repricing pressure. (**GGM assumptions:** FY24F ROE of 10.3%, LTG of 3.5% & COE of 11.5%)

Fig 1: Quarterly results

FYE Dec (RM m)	1Q FY23	4Q FY22	1Q FY22	Yoy (%)	Qoq (%)	3M FY23	3M FY22	Yoy (%)
Net interest inc.	2,714	3,107	2,720	-0	-13	2,714	2,720	-0
Islamic banking inc.	989	1,032	947	4	-4	989	947	4
Non-interest inc.	1,295	1,070	1,069	21	21	1,295	1,069	21
Net income	4,997	5,209	4,736	6	-4	4,997	4,736	6
OPEX	(2,344)	(2,487)	(2,278)	3	-6	(2,344)	(2,278)	3
PPOP	2,654	2,722	2,459	8	-3	2,654	2,459	8
Loan provisions	(306)	(722)	(287)	7	-58	(306)	(1,265)	-76
Other provisions	(139)	(23)	(137)	1	>500	(139)	(137)	1
Others	-	10	0	n.m.	n.m.	-	0	n.m.
JV & Associates	27	29	13	n.m.	n.m.	27	13	n.m.
PBT	2,236	2,017	2,048	9	11	2,236	2,048	9
Tax	(547)	(661)	(580)	-6	-17	(547)	(580)	-6
NCI	(45)	(30)	(40)	11	48	(45)	(40)	11
Reported NP	1,645	1,325	1,427	15	24	1,645	1,427	15
Core NP	1,645	1,331	1,472	12	24	1,645	1,472	12
Total NII	3,522	4,033	3,549	-1	-13	3,522	3,549	-1
Total NOII	1,475	1,176	1,187	24	25	1,475	1,187	24
Gross DPS (sen)	-	13.0	-	n.m.	n.m.	-	-	n.m.
Core EPS (sen)	15.4	12.7	14.4	7	21	15.4	14.4	7
Gross loans	413,090	407,057	384,721	7.4	1.5			
Gross impaired loans	13,309	13,321	13,243	0.5	-0.1			
Customer deposits	437,021	432,950	420,849	3.8	0.9			
CASA	175,742	182,292	190,640	-7.8	-3.6			
Ratios (%)	1Q FY23	4Q FY22	1Q FY22	Yoy (ppts)	Qoq (ppts)	3M FY23	3M FY22	Yoy (ppts)
ROE (Ann.)	10.0	8.5	9.8	0.2	1.5	9.9	9.6	0.2
NIM (Reported)	2.26	2.57	2.45	-0.19	-0.31	2.26	2.45	-0.19
NOII/Net income	29.5	22.6	25.1	4.5	6.9	29.5	25.1	4.5
Cost/Income	46.9	47.7	48.1	-1.2	-0.9	46.9	48.1	-1.2
NCC (Ann.) (bps)	31	74	31	0	-43	31	31	0
GIL ratio	3.22	3.27	3.44	-0.22	-0.05			
Loan loss coverage	94	93	102	-8	1			
CASA ratio	40.2	42.1	45.3	-5.1	-1.9			
L/D ratio	91.7	91.1	88.2	3.5	0.5			
CET-1	13.9	14.5	14.5	-0.6	-0.6			

Source: CIMB, MIDFR

Fig 2: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Qtrly Core NP	RM mil	1,645	Qtrly ROE	Qtr value	10.0%	<p>Not a bad quarter at all: CIMB was able to leverage its regional presence to buffer itself from MY NIM attrition.</p> <p>Also worth noting: really good recovery in treasury and investment income.</p>
	25% of FY CNP			t-1	8.5%	
	Qoq	24%		t-4	9.8%	
	Yoy	12%				
Cum Core NP	RM mil	1,645	Cum ROE	Cum value	9.9%	
	Within our forecast					
	25% of FY CNP					
	Within consensus					
	26% of FY CNP					
Yoy	12%	t-1	9.6%			
NII	As expected		NIM	As expected		<p>NIM compression was well-guided.</p> <p>NIM compression by market (qoq):</p> <p>MY: -32bps, SG: -13bps, TH: -10bps, IND: -19bps.</p> <p>CIMB believes NIM compression has troughed and will only reverse going forward.</p>
				Qtr value	2.26	
				Cum value	2.26	
	Qtr (Qoq)	-13%		Qtr (Qoq)	-31bps	
	Qtr (Yoy)	-1%		Qtr (Yoy)	-19bps	
Cum (Yoy)	-1%	Cum (Yoy)	-19bps			
NOII	+ve surprise		Qtr	% NII	70%	<p>Very strong growth on a quarter-on-quarter basis – driven by return of investment and trading incomes.</p> <p>While most regions will see good recovery in future quarters, the standout is IND.</p>
	Qtr (Qoq)	25%		% NOII	30%	
	Qtr (Yoy)	24%	Cum	% NII	70%	
	Cum (Yoy)	24%		% NOII	30%	
OPEX	As expected		Cost/ Inc.	As expected		<p>OPEX within management expectations.</p> <p>Quarter-on-quarter decline, as OPEX tends to be backloaded to 4Q.</p>
				Qtr value	46.9%	
				Cum value	46.9%	
	Qtr (Qoq)	-6%		Qtr (Qoq)	-0.9%	
	Qtr (Yoy)	3%		Qtr (Yoy)	-1.2%	
Cum (Yoy)	3%	Cum (Yoy)	-1.2%			

Source: CIMB, MIDFR

Fig 3: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	As expected				<p>Healthy range, well within guidance. SG saw slight loan compression, but that was only due to the repayment of a sizeable loan.</p>	
	Qoq	1.5%				
	Yoy	7.4%				
	YTD (FY)	1.5%				
Depo. grwth	As expected		CASA grwth	As expected		<p>Not outstanding, but its outlook is better than other banks. Recall that CIMB can draw on IDR, TH and SG to buffer itself from further attrition expected in MY (though this attrition is slowing down).</p>
	Qoq	0.9%		Qoq	-3.6%	
	Yoy	3.8%		Yoy	-7.8%	
	YTD (FY)	0.9%		YTD (FY)	-3.6%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	40.2%		Value now	91.7%	
	Qoq	-1.9%		Qoq	+0.5%	
	Yoy	-5.1%		Yoy	+3.5%	
GIL ratio	As expected		LLC ratio	As expected		<p>Small provision. GIL is well managed. NCC so far was well below target, which is a good sign: recall that CIMB is actively trying to maintain its overlays – hence NCC buoys via lumpier writebacks in later quarters are less likely.</p>
	Value now	3.22%		Value now	94%	
	Qoq	-5bps		Qoq	+1%	
	Yoy	-22bps		Yoy	-8%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Small provision			Small provision		
	Value now	31bps		Value now	31bps	
	t-1	74bps				
	t-4	31bps	t-4	31bps		
CET 1	Healthy level		Div payout	No divvy		<p>Still healthy. CET 1 took a dip in the quarter, but this was a one-off – it should normalise back to the ~14.5% range in subsequent quarters. Further capital optimisation exercises on the cards – the scale will be clearer next quarter.</p>
	As expected			As expected		
	Value now	13.9%		Payout	-	
	Qoq	-0.6%				

Others:







Source: CIMB, MIDFR

Fig 4: Targets, Achievements, and Outlook

Targets	FY23F	3M FY23	Notes (Red: New guidance, Strikethrough: former guidance is no longer pertinent)
ROE	10.2-11.0	9.9	Despite the lower-than-expected NIM forecast, CIMB expects NOII recovery to make up for shortcomings to achieve ROE target. MY: ~10.2-11.0%, IND: 12-14%, SG: slightly below guidance, TH: 7-8%.
CIR	<46.5	46.9	OPEX growth to be in the mid-single-digit range. Costs should grow quarter-on-quarter, with tech costs kicking in.
NIM	-5 to -10 bps -10 to -15 bps from 2.51	2.26	Worst is believed to be over -- NIM should only improve from here on out. IND is probably the best driver NIM-wise: Have not fully passed on hikes onto loan yields.
NOII		24% (yoy)	
Loans	5-6	1.5 (YTD)	MY: 5-6, IDN: 6-8% (muted corporate side), SG: mid-single digit, TH: high-single-digit (focusing consumer side).
Deposits		.9 (YTD)	
CASA		40.2	MY: further attrition, SG: flattish (though depending on appetite), TH and IND: to see +ve growth.
Loan/Depo.		91.7	
GIL ratio		3.22	
NCC (bps)	45-55	31	Overlay balance: >RM2b (Only RM177m written back -- the rest are reallocated to permanent provisions)
LLC		94	
CET 1	>13.5	13.9	RWA density optimisation is ongoing, mostly on non-retail end. Most benefits are to be seen in FY23, the rest in FY24. DRS switched off.
Div payout	40-60	-	

Source: CIMB, MIDFR

Fig 5: CIMB's targets

	1Q23	FY23 Targets	FY24 Forward23+ Ambition
 ROE *	10.3%	10.2-11.0%	Top quartile (11.5-12.5%)
 Dividend Payout Ratio	-	40-60%	40-60%
 Total Loan Growth	7.4%	5-6%	In line with market
 Cost to income	46.9%	<46.5%	≤45%
 Loan Loss * Charge	37bps	45-55bps	50-60bps
 CET 1 (CIMB Group)	14.3%	>13.5%	>13.5%

Note: *Annualised

Source: CIMB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	16,096	18,646	19,809	21,546	21,929
Interest expense	(5,221)	(7,016)	(7,980)	(9,120)	(9,120)
Net interest income	10,874	11,630	11,829	12,426	12,809
Islamic banking inc.	3,533	4,000	3,573	3,670	3,783
Other operating inc.	5,105	4,208	5,021	5,882	6,597
Net income	19,513	19,838	20,423	21,978	23,189
OPEX	(9,419)	(9,346)	(9,599)	(10,220)	(10,551)
PPOP	10,094	10,492	10,824	11,758	12,638
Loan allowances	(2,614)	(1,953)	(1,878)	(1,962)	(2,040)
Other allowances	(1,759)	(209)	(200)	(296)	(451)
JV & Associates	68	40	111	121	129
PBT	5,789	8,371	8,857	9,621	10,276
Tax & zakat	(1,397)	(2,778)	(2,214)	(2,405)	(2,569)
NCI	(97)	(153)	(166)	(180)	(193)
Reported NP	4,295	5,440	6,477	7,035	7,514
Core NP	4,648	5,542	6,496	7,044	7,521
Total NII	13,958	15,158	14,973	15,729	16,214
Total NOII	5,555	4,680	5,450	6,249	6,975

BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	50,283	47,105	46,784	47,482	48,180
Investment securities	156,728	156,410	158,519	159,008	159,728
Net loans	364,685	394,557	413,097	430,132	447,030
Other IEAs	5,885	9,751	11,214	12,560	14,067
Non-IEAs	44,325	58,897	61,432	67,504	73,723
Total assets	621,907	666,721	691,047	716,685	742,728
Customer deposits	422,418	432,950	454,597	473,236	492,165
Other IBLs	104,963	115,648	114,855	115,581	116,629
Non-IBLs	34,417	54,340	53,749	55,407	57,232
Total liabilities	561,798	602,937	623,201	644,225	666,026
Share capital	27,100	29,095	29,095	29,095	29,095
Reserves	31,764	33,397	37,290	41,819	45,981
Shareholders' funds	58,863	62,491	66,384	70,913	75,076
Perpetual pref. shares	200	200	200	200	200
NCI	1,045	1,093	1,261	1,347	1,426
Total equity	60,109	63,784	67,846	72,461	76,702
Total L&E	621,907	666,721	691,047	716,685	742,728
Total IEAs	577,582	607,824	629,614	649,181	669,005
Total IBLs	527,381	548,598	569,452	588,817	608,794
Gross loans	378,033	407,057	427,410	444,506	462,287
CASA	186,052	182,292	186,385	179,830	177,180

FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.47	2.56	2.42	2.46	2.46
Return on IEAs	2.85	3.15	3.20	3.37	3.33
Cost of funds	1.01	1.30	1.43	1.57	1.52
Net interest spread	1.84	1.84	1.77	1.79	1.80
Profitability (%)					
ROE	8.1	9.1	10.1	10.3	10.3
ROA	0.8	0.9	1.0	1.0	1.0
NOII/Net income	28.5	23.6	26.7	28.4	30.1
Effective tax rate	24.1	33.2	25.0	25.0	25.0
Cost/Income	48.3	47.1	47.0	46.5	45.5
Liquidity (%)					
Loan/Deposit	86.3	91.1	90.9	90.9	90.8
CASA ratio	44.0	42.1	41.0	38.0	36.0
Asset Quality (%)					
GIL ratio	3.52	3.27	3.30	3.14	3.12
LLC ratio	100	93	100	100	100
LLC (w. reserves)	101	96	112	113	112
Net CC (bps)	70	50	45	45	45
Capital (%)					
CET 1	14.2	14.5	14.7	14.3	14.0
Tier 1 capital	15.1	15.4	15.6	15.1	14.7
Total capital	18.0	18.5	18.8	18.3	17.9
Growth (%)					
Total NII	9.7	8.6	-1.2	5.1	3.1
Total NOII	30.3	-15.8	16.5	14.7	11.6
Net income	14.9	1.7	3.0	7.6	5.5
OPEX	7.3	-0.8	2.7	6.5	3.2
Core NP	289.3	19.2	17.2	8.4	6.8
Gross loans	3.3	7.7	5.0	4.0	4.0
Customer deposits	4.8	2.5	5.0	4.1	4.0
CASA	10.3	-2.0	2.2	-3.5	-1.5
Valuation metrics					
Core EPS (sen)	44.6	53.2	62.3	67.6	72.1
Gross DPS (sen)	23.0	26.0	31.2	33.8	36.1
Div payout (%)	54	50	50	50	50
BVPS (RM)	5.6	6.0	6.4	6.8	7.2
Core P/E (x)	10.8	9.1	7.7	7.1	6.7
Div yield (%)	4.8	5.4	6.5	7.0	7.5
P/BV (x)	0.9	0.8	0.8	0.7	0.7

Source: CIMB, MIDFR

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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 <i>rise</i> 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 <i>fall</i> 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