

CIMB Group Holdings (CIMB MK)

Comprehensive ESG policies

BUY maintained

CIMB ranks high on sustainability, with comprehensive policies in place. We nevertheless look forward to further improvement in some of its environmental trends and for a financed emissions baseline to be established. We have introduced an expanded ESG tear sheet for the group and assigned it an above average overall score of 67, based on its aggregated quantitative/qualitative/target-based metrics. CIMB remains a BUY with a TP of MYR6.20 pegged to a FY23E PBV of 1x (FY23E ROE: 10%). 4.8% FY22E dividend yield is decent.

Looking for an improvement in environmental trends

CIMB has comprehensive sustainability policies in place, and its overall ESG score of 67 is above average on our ESG rating. Where it could perform better would be in some of its environmental trends, e.g. water and petrol consumption, as well as the recycling of solid waste such as paper. What it does need to tackle as well are the alleged data security issues, which have cropped up in the press in recent years, the latest being the double crediting error by a third-party service provider, for which it has had to set aside provisions this year.

Yet to set a financed emissions baseline

In terms of its greenhouse gas emissions (GHG), the group targets a 25% reduction in GHG emissions by 2024, and it hopes to achieve net zero by 2030. The group plans to capture the Scope 3 emissions from financing activities, but has yet to establish a baseline at this stage. It plans to set sector-wide targets for 2030 and 2050 re reducing its Scope 3 emissions.

Financial targets for FY22

Management targets loan growth of 6-7% in FY22 (MIBG: 5.4%), expects NIM to expand by about 5 bps (MIBG: +3bps), cost/income ratio of <48bps (MIBG: 47.2%), and credit cost of 50-60bps (MIBG: 60bps). It targets a ROE of 9-10% for FY22, including Cukai Makmur. Our ROE forecast of 9% is at the lower end of that range.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	17,096	18,287	19,603	20,636	21,391
Pre-provision profit	8,119	8,868	10,344	11,040	11,437
Core net profit	1,430	4,648	5,458	6,692	7,243
Core EPS (MYR)	0.14	0.46	0.54	0.67	0.72
Core EPS growth (%)	(70.6)	221.8	17.4	22.6	8.2
Net DPS (MYR)	0.05	0.23	0.26	0.31	0.32
Core P/E (x)	29.8	11.8	9.9	8.0	7.4
P/BV (x)	0.8	0.9	0.9	0.9	0.9
Net dividend yield (%)	1.1	4.2	4.8	5.8	6.0
Book value (MYR)	5.64	5.76	5.91	6.04	6.18
ROAE (%)	2.5	8.1	9.0	10.4	10.7
ROAA (%)	0.2	0.8	0.9	1.0	1.0
Consensus net profit	-	-	5,195	6,323	6,903
MKE vs. Consensus (%)	-	-	5.1	5.8	4.9

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BUY

Share Price	MYR 5.37
12m Price Target	MYR 6.20 (+15%)
Previous Price Target	MYR 6.20

Company Description

CIMB Group Holdings engages in the provision of consumer and investment banking services. It holds a majority stake in PT CIMB Niaga.

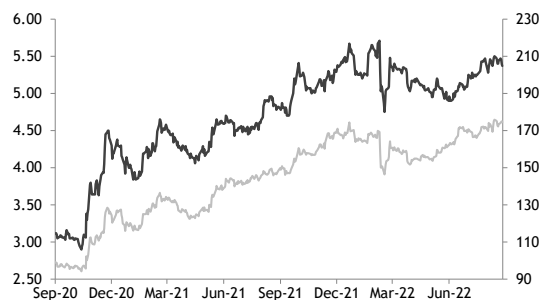
Statistics

52w high/low (MYR)	5.71/4.70
3m avg turnover (USDm)	11.9
Free float (%)	59.3
Issued shares (m)	10,474
Market capitalisation	MYR56.2B USD12.4B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	24.8%
Employees Provident Fund	15.3%
Permodalan Nasional Bhd.	10.1%

Price Performance



— CIMB Group - (LHS, MYR) — CIMB Group / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(1)	7	12
Relative to index (%)	2	7	19

Source: FactSet

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Risk Rating & Score ¹	Low & 19.5
Score Momentum ²	-0.2
Last Updated	18 May 2022
Controversy Score ³ (Updated: 13 Apr 2022)	2

Business Model & Industry Issues

- With business operations in all ASEAN countries (37% of total loans were from outside Malaysia as at end-Dec 2021), the challenge for CIMB would be in ensuring ESG compliance across the various jurisdictions, especially in Indonesia and Thailand, where the group has a 91.5% stake in CIMB Niaga and 94.8% stake in CIMB Thai.
- The banking sector is one of the transmission mechanisms for government stimulus programs under COVID-19 relief schemes, with an ongoing loan moratorium for the unemployed and reduced instalment payments for individuals that have suffered pay cuts. The PEMULIH programme ended in Dec 2021 but affected borrowers could still transition to the URUS programme or the bank's own internal Payment Relief Assistance Plans (PRAP). These repayment assistance programmes elevate social priorities over shareholders returns in the near term.
- CIMB Group displays no exceptional ESG risks that are not typical of a large bank but will have to improve on perceived weaknesses in data security.
- CIMB also scores above-average in our proprietary scoring methodology (see Pg. 3) with an overall score of 67/100.

Material E issues

- CIMB is a signatory to the Collective Commitment to Climate Action, which strives to limit global warming to well below 2 degrees Celsius.
- Targets set: a) net zero GHG Scope 1 and 2 emissions by 2030 and Net Zero GHG by 2050, b) no Deforestation, no Peat and no Exploitation policy to be rolled out from mid-2022 in Malaysia and phased in by stages across the Group, c) to mobilise MYR30b in sustainable finance by 2024.
- CIMB was the first banking group in Southeast Asia to formalize a progressive coal sector guide that targets to phase out coal from its portfolio by 2040. Coal exposure was <1% of the group's financing assets end-2021.
- In 2021, it a) structured the world's first Malaysian Ringgit denominated sustainability-linked derivative transaction and Asia's largest ESG linked derivative trade, b) mobilised MYR25.9b of sustainable finance, c) launched the Government of Indonesia's USD3b global sukuk offering with a green sukuk tranche and the Government of Malaysia's USD 1.3b sukuk wakala, which included a USD800m sustainability tranche.

Material S issues

- CIMB is committed to invest MYR150m over 5 years and a 100,000 hour target of annual employee volunteerism by 2024.
- CIMB has 30% female Board representation, 43% in leadership (Group CEO's reports and their reports) and 47% in management roles of revenue generating functions.
- Has extended over MYR7.6b in financing to serve underserved communities and MYR253b of financial assistance to 1.7m customers since 2020.

Key G metrics and issues

- In 2021, CIMB's BOD comprised 10 Directors - 7 Independent Directors (IDs), 2 Non-IDs and the Group CEO, who is an Executive Director.
- CIMB Group is audited by PricewaterhouseCoopers, the world's second largest network of professional firms.
- Established the Board-level Group Sustainability and Governance Committee in 2021, and embedded sustainability KPIs into the performance measures of the Group's top 100 executives.
- In recent years, CIMB had been in the press over alleged data security issues. In 2017, the group announced that several magnetic tapes containing back-up customer data were lost in transit during routine operations. In 2018, there were alleged security issues over its online banking portal, CIMBClicks. In 2019, CIMB had to assure its customers that its core banking system was intact, amid allegations of a ransomware attack.
- In Feb 2022, CIMB announced it had to set aside a provision of MYR280m against a processing error that was made by one of its third-party service providers. The processing error led to transfers made to customers being accidentally processed twice, resulting in customers receiving duplicate credits into their accounts. The bank was sued by 12 parties as a result of their accounts being frozen, but CIMB filed a counter-suit against these people along with an order issued for all 12 people to repay a total of MYR1.39m. Further to this, 650 CIMB Bank account holders had, in April 2022, filed a MYR650m class-action suit against the bank for negligence.
- CIMB Group's previous CEO of 5 years (Feb 2015 to Mar 2020), Tengku Dato' Sri Zafrul, is now Malaysia's Finance Minister. CIMB Group's major shareholder is Khazanah Nasional with a 24.5% stake, which would imply that the group is a Government-linked company (GLC).

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 50)						
	Particulars	Unit	2019	2020	2021	HLBK MK
E	Scope 1 GHG emissions	m tCO ₂ e	4,998	2,196	5,024	134
	Scope 2 GHG emissions	m tCO ₂ e	89,836	81,755	66,941	23,541
	Total	m tCO₂e	94,834	83,951	71,965	23,675
	Scope 3 GHG emissions	m tCO ₂ e	161	165	189	1,294
	Total	m tCO₂e	94,995	84,116	72,154	24,969
	GHG intensity (Scope 1 and 2)	kgCO ₂ e/t	2,696	2,461	2,169	3,200
	Exposure to coal, mining & plantation	% of loan book			7.2%	10.0%
	Electricity consumption	MWh	129,484	117,376	107,089	41,633
	Water consumption	m ³	474,531	480,139	550,709	75,549
	Petrol consumption	litres	16,975	7,614	18,598	54,008
Solid waste recycled	tonnes	389,979	140,108	126,165	24,881	
S	% of women in workforce	%	56.5%	56.5%	56.7%	62.6%
	% of women in management roles	%	45.7%	46.6%	48.0%	55.7%
	Attrition rate	%	19.0%	13.9%	14.3%	10.7%
	Policy, data & framework breaches	number	0	0	1	0
G	MD/CEO salary as % of reported net profit	%	0.18%	0.21%	0.11%	0.51%
	Board salary as % of reported net profit	%	0.30%	0.63%	0.23%	0.05%
	Independent directors on the Board	%	75%	78%	70%	63%
	Profits distributed to shareholders	% of net profit	49.7%	33.4%	50.1%	35.8%
	Female directors on the Board	%	11%	33%	30%	38%

Qualitative parameters (Score: 67)	
a)	is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee? <i>Yes, there is an ESG policy in place and a standalone Sustainability & Governance Committee.</i>
b)	Does the performance evaluation of the board and senior mgt include a review of the performance of the board and senior management in addressing the company's material sustainability risks and opportunities? <i>Yes. Sustainability KPIs are carried by the Group CEO, top management, country heads and relevant senior management in key business units and enablers that contribute significantly towards the advancement of sustainability in CIMB.</i>
c)	Does the company follow TCFD framework for ESG reporting? Is it signatory to responsible banking initiative or other such initiatives? <i>Yes, the bank has committed to fully align to the TCFD framework in 2023 report. It has already embedded physical and transition risk into the Group's Risk library. It is the signatory to the Collective Commitment to Climate Action (CCCA) for aligning its portfolio to well-below 2C.</i>
d)	Does the bank capture Scope 3 emissions from financing activities? <i>The bank plans to capture the Scope 3 emissions from financing activities, but has yet to establish a baseline. It plans to establish sector-wide targets for 2030 and 2050 so as to reduce its Scope 3 emissions.</i>
e)	Does the bank have a firm deadline for exiting the financing of the coal sector? <i>Yes it does. No financing of new coal and to exit coal by 2040.</i>
f)	Does the bank have a "no deforestation, no peat, no exploitation (NDPE)" policy in place? <i>Yes it does. Starts mid-2022 for Malaysia and to be phased in across other geographies.</i>

Target (Score: 100)		
Particulars	Target	Achieved
MYR30b sustainable finance mobilised by 2024	MYR30b	MYR25.9b
25% reduction in GHG emissions by 2024, net zero by 2030	25%	24%
100,000 volunteering hours annually by 2024	100,000 hrs	67%
Impact		
NA		
Overall score: 67		
As per our ESG matrix, CIMB Group Holdings (CIMB MK) has an overall score of 67.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	50	25
Qualitative	25%	67	17
Target	25%	100	25
Total			67

CIMB has strong sustainability policies in place, but where it would be lacking would be in some of its environmental trends, while the recent double crediting issue has been a setback. It does need to set its financed emissions baseline as well. CIMB's overall ESG score is 67, which is above average on our ESG rating (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Appendix I

Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

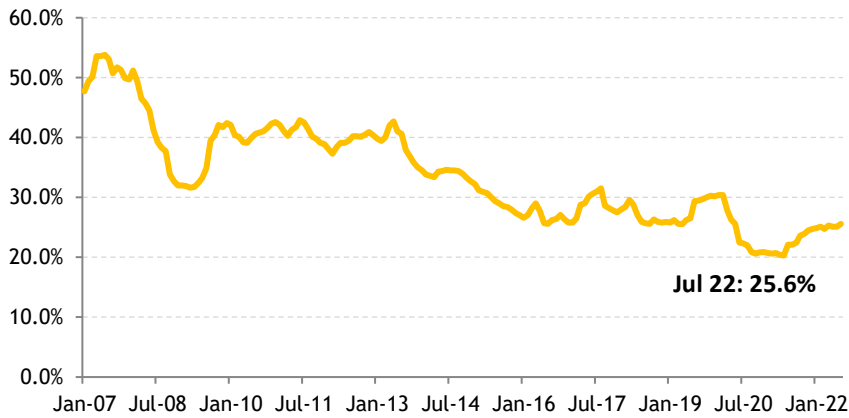
For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters is the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

Risk statement

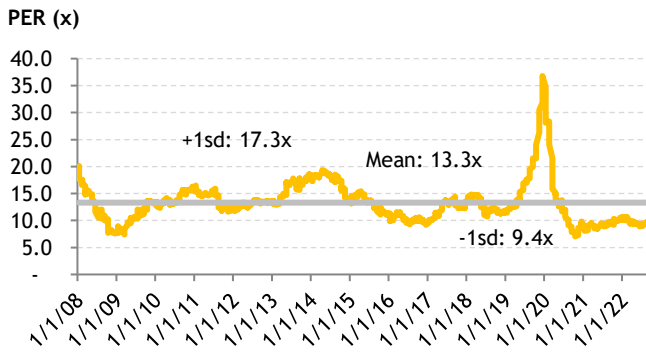
As the second largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group's operating performance. Moreover, with regional exposures in key markets such as Indonesia, Thailand and Singapore, economic volatility in the region would have a bearing on overall operations. Further decreases in Indonesia's interest rates could squeeze margins in the near term, while the weakening of the IDR could impact the translation of Niaga's earnings.

CIMB Group's foreign shareholding



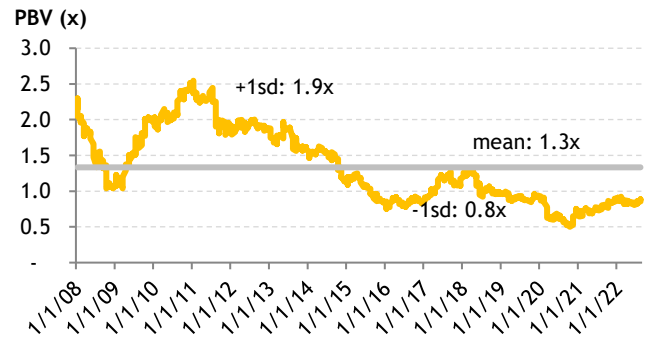
Source: Company

CIMB Group: One-year forward rolling PER (x)



Source: Bloomberg data, Maybank IBG Research

CIMB Group: One-year forward rolling P/BV



Source: Bloomberg data, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	29.8	11.8	9.9	8.0	7.4
Core FD P/E (x)	35.7	12.7	9.9	8.0	7.4
P/BV (x)	0.8	0.9	0.9	0.9	0.9
P/NTA (x)	0.9	1.1	1.0	1.0	1.0
Net dividend yield (%)	1.1	4.2	4.8	5.8	6.0
INCOME STATEMENT (MYR m)					
Interest income	17,741.7	16,095.7	20,873.2	21,865.9	22,708.3
Interest expense	(7,522.7)	(5,221.3)	(9,333.3)	(9,801.0)	(10,431.8)
Net interest income	10,219.0	10,874.4	11,539.8	12,064.9	12,276.5
Islamic banking income	2,937.5	3,533.5	3,816.2	4,121.5	4,451.2
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	1,748.8	2,067.3	2,170.6	2,279.2	2,393.1
Other income	2,190.4	1,812.1	2,076.1	2,170.8	2,270.5
Total non-interest income	3,939.2	3,879.3	4,246.8	4,449.9	4,663.6
Operating income	17,095.7	18,287.2	19,602.8	20,636.3	21,391.2
Staff costs	(5,144.1)	(5,428.4)	(5,591.3)	(5,814.9)	(6,047.5)
Other operating expenses	(3,832.7)	(3,990.5)	(3,667.8)	(3,781.9)	(3,907.2)
Operating expenses	(8,976.8)	(9,418.9)	(9,259.0)	(9,596.8)	(9,954.7)
Pre-provision profit	8,118.9	8,868.3	10,343.7	11,039.5	11,436.6
Loan impairment allowances	(5,342.2)	(2,613.6)	(2,329.3)	(2,036.7)	(1,701.7)
Other allowances	(1,456.2)	(1,758.9)	(163.0)	(100.0)	(100.0)
Associates & JV income	116.5	68.0	74.7	82.1	90.1
Pretax profit	1,437.0	4,563.8	7,926.1	8,984.9	9,725.0
Income tax	(383.8)	(1,396.9)	(2,357.0)	(2,156.4)	(2,334.0)
Minorities	47.9	(97.3)	(111.4)	(136.6)	(147.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,101.1	3,069.6	5,457.8	6,691.9	7,243.2
Core net profit	1,429.9	4,648.2	5,457.8	6,691.9	7,243.2
BALANCE SHEET (MYR m)					
Cash & deposits with banks	43,125.9	50,283.2	52,797.4	55,437.3	58,209.1
Sec. under resale agreements	6,832.9	5,885.5	6,474.0	7,121.5	7,833.6
Derivatives financial assets	16,008.4	11,989.6	12,589.1	13,218.5	13,879.5
Dealing securities	42,713.1	40,279.2	40,682.0	41,088.9	41,499.7
Available-for-sale securities	104,162.8	116,448.9	122,271.4	128,384.9	134,804.2
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	353,916.0	364,684.8	387,795.7	405,189.1	422,986.7
Central bank deposits	4,411.6	4,676.2	10,923.0	11,410.2	11,908.0
Investment in associates/JVs	2,496.5	2,952.1	2,956.2	2,960.6	2,965.2
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	3,076.6	2,748.6	2,886.0	3,030.3	3,181.8
Intangible assets	9,745.0	8,301.6	8,301.6	8,301.6	8,301.6
Other assets	15,866.0	13,657.3	13,882.4	14,112.1	14,346.3
Total assets	602,354.9	621,907.1	661,558.8	690,254.8	719,915.6
Deposits from customers	405,729.5	432,845.3	440,676.9	460,442.2	480,666.7
Deposits from banks & FIs	31,791.2	30,701.9	32,237.0	33,848.8	35,541.3
Derivatives financial instruments	16,340.8	10,895.5	11,440.2	12,012.2	12,612.9
Subordinated debt	12,808.5	10,128.6	10,128.6	10,128.6	10,128.6
Other securities in issue	12,464.0	13,379.0	13,379.0	13,379.0	13,379.0
Other borrowings	38,552.5	37,292.9	40,373.5	43,749.2	47,449.2
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	27,494.2	26,555.2	49,600.5	49,489.2	49,163.0
Total liabilities	545,180.8	561,798.3	597,835.7	623,049.2	648,940.6
Share capital	25,843.8	27,099.7	27,099.7	27,099.7	27,099.7
Reserves	30,081.8	31,763.6	35,266.5	38,612.5	42,234.1
Shareholders' funds	55,925.6	58,863.3	62,366.2	65,712.2	69,333.8
Preference shares	200.0	200.0	200.0	200.0	200.0
Minority interest	1,048.5	1,045.5	1,156.9	1,293.4	1,441.3
Total equity	57,174.1	60,108.7	63,723.1	67,205.6	70,975.0
Total liabilities & equity	602,354.9	621,907.1	661,558.8	690,254.8	719,915.6

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	1.3	6.4	6.1	4.6	1.8
Non-interest income	(7.1)	(1.5)	9.5	4.8	4.8
Operating expenses	(9.1)	4.9	(1.7)	3.6	3.7
Pre-provision profit	8.4	9.2	16.6	6.7	3.6
Core net profit	(70.0)	225.1	17.4	22.6	8.2
Gross loans	(1.0)	3.3	5.4	4.5	4.4
Customer deposits	2.5	6.7	1.8	4.5	4.4
Total assets	5.1	3.2	6.4	4.3	4.3
Profitability (%)					
Non-int. income/Total income	23.0	21.2	21.7	21.6	21.8
Average lending yields	3.85	3.48	4.16	4.17	4.17
Average cost of funds	1.81	1.23	2.13	2.14	2.17
Net interest margin	2.32	2.45	2.48	2.49	2.46
Cost/income	52.5	51.5	47.2	46.5	46.5
Liquidity (%)					
Loans/customer deposits	87.2	84.3	88.0	88.0	88.0
Asset quality (%)					
Net NPL	1.7	1.5	1.7	1.7	1.7
Gross NPL	3.6	3.5	3.2	3.2	3.2
(SP+GP)/average gross loans	1.5	0.7	0.6	0.5	0.4
Loan loss coverage	91.6	100.2	83.7	83.7	83.7
Capital adequacy (%)					
CET1	13.2	14.2	14.3	14.6	14.9
Tier 1 capital	14.5	15.1	15.1	15.4	15.7
Risk-weighted capital	17.5	18.0	17.9	18.0	18.2
Returns (%)					
ROAE	2.5	8.1	9.0	10.4	10.7
ROAA	0.2	0.8	0.9	1.0	1.0
Shareholders equity/assets	9.3	9.5	9.4	9.5	9.6

Source: Company; Maybank IBG Research

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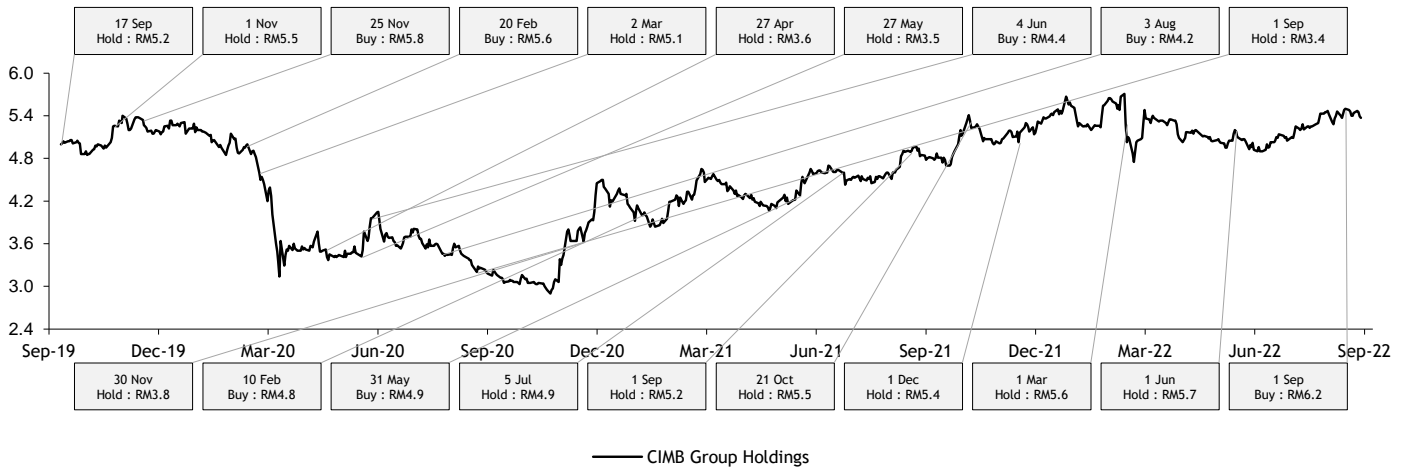
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