

CIMB Group Holdings (CIMB MK)

Room for positive re-rating

BUY maintained

While the operating environment remains challenging, much of the negatives have been built into our forecasts and there is room for credit costs to surprise positively, in our view. Our FY23/24E ROE estimates lag management's targets and there is room for a re-rating should these targets be met. We maintain our BUY call on CIMB with an unchanged TP of MYR6.50 (FY24E PBV target of 1.0x, ROE: 10%).

Challenging environment built into forecasts

The operating environment remains fairly challenging amid moderate loan growth and likely slower HoH non-interest income growth in 2H23, in our view. Nevertheless, we believe that much of these challenges have been built into our forecasts. Positively, net interest margins appear to have troughed while there is room for credit cost to surprise positively amid stable asset quality.

Room for credit costs to surprise positively

The outlook for impaired loans remains relatively benign, though management remains cautious amid headwinds in global macro conditions. COVID-related overlays in Malaysia have predominantly been reallocated, but remain largely intact in Thailand and Indonesia. Management is comfortable with its provision levels for loans under repayment assistance, more so for the corporate/commercial loans. There is room, we believe, for credit cost to surprise positively. Our current credit cost assumption of 50bps for FY23E is at the high end of management's 40-50bps guidance, while our 40bps estimate for FY24/25E is also a fairly elevated assumption.

Room for re-rating if ROEs surpass expectations

Management remains comfortable with and committed to its ROE target of 10.2%-11% for FY23 (1H23: 10.6%). Our FY23E ROE of 9.8% is lagging management's target. Moving into FY24, management has an ROE target of 11.5-12.5%, for which our estimate of 10% is also lagging. Positive surprises here would undoubtedly provide the basis for a valuation upgrade for the stock.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	18,287	19,838	20,434	21,483	22,667
Pre-provision profit	8,868	10,492	10,611	11,208	11,924
Core net profit	4,648	5,440	6,339	6,833	7,300
Core EPS (MYR)	0.46	0.52	0.61	0.66	0.70
Core EPS growth (%)	221.8	12.5	16.5	7.8	6.8
Net DPS (MYR)	0.23	0.26	0.33	0.35	0.38
Core P/E (x)	11.8	11.1	9.3	8.7	8.1
P/BV (x)	0.9	1.0	0.9	0.9	0.8
Net dividend yield (%)	4.2	4.5	5.8	6.2	6.7
Book value (MYR)	5.76	5.86	6.28	6.57	6.88
ROAE (%)	8.1	9.0	9.8	10.0	10.2
ROAA (%)	0.8	0.8	0.9	1.0	1.0
Consensus net profit	-	-	6,466	7,003	7,542
MIBG vs. Consensus (%)	-	-	(1.9)	(2.4)	(3.2)

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BUY

Share Price	MYR 5.68
12m Price Target	MYR 6.50 (+14%)
Previous Price Target	MYR 6.50

Company Description

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

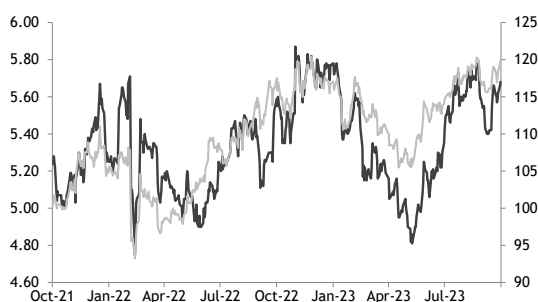
Statistics

52w high/low (MYR)	5.87/4.81
3m avg turnover (USDm)	14.4
Free float (%)	62.0
Issued shares (m)	10,665
Market capitalisation	MYR60.6B
	USD12.6B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	23.6%
Employees Provident Fund	13.8%
Permodalan Nasional Bhd.	9.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	6	3
Relative to index (%)	2	5	3

Source: FactSet

1. Key Highlights

1.1 Slower loan growth already factored into forecasts

CIMB's domestic loan growth was 4.7% YoY end-June 2023, while group loan growth was 8.3% YoY. Domestic loan growth remains fairly moderate - there was a slight pick-up in consumer loan demand in 3Q23, offset in part by slower demand for corporate loans. Loan growth momentum continues to be sustained in Indonesia, but at a slower pace for both consumer and corporate loans. In Thailand, loan growth remains healthy for both consumer and corporate loans. In Singapore, there has been a moderation in consumer loan demand. Much of these developments are already factored into management's group loan growth forecast of 6-7%, which is slower than the 8.3% YoY loan growth achieved in 1H23. In fact, our FY23E loan growth forecast of 5.1% trails guidance.

1.2 CASA gathering remains a challenge

CASA contracted marginally by 0.3% YoY in 1H23, predominantly from consumer CASA in Malaysia and to a lesser extent, from wholesale CASA in Thailand. Positively though, wholesale CASA in Malaysia and Indonesia expanded in 1H23. This trend continued into 3Q23 whereby contraction in consumer CASA in Malaysia was offset by growth in wholesale CASA.

1.3 Net interest margins stabilizing

Generally, competition for fixed deposits had eased into 3Q23, when compared against the intensity in 1H23, and there was a slight benefit from the 25bps interest rate hike in May 2023. Some seasonal competition has however returned in 4Q23 resulting in higher funding cost, but it has not been as aggressive as it was in 4Q22. NIM recovery in Indonesia remains a challenge at this stage. Management's guidance has been for a 15-20bps NIM compression this year, against a compression of 26bps YoY in 1H23. Our forecasts impute a 21bps NIM compression in FY23.

1.4 Non-interest income likely weaker in 2H23

Fee income was flat YoY in 1H23, as the group had benefited from higher fees from structured products and wealth management in FY22. Moreover, syndication and deal-related fees had been lower. Wholesale banking fees had picked up in 3Q23 but this continues to be offset by weakness in consumer-related fees.

Trading and forex income is likely to be weaker HoH, given the strong performance in 1H23, but should still fare decently on a YoY basis. The sale of non-performing loans to generate fee income is expected to be an ongoing theme.

Overall, we are of the view that it will be difficult for the group to replicate the 32% YoY jump in 1H23 group non-interest income (NOII) into 2H23.

1.5 Operating expenses

Operating expenses rose 6.2% YoY in 1H23 and the momentum is likely to continue into 2H23, particularly with ongoing investment in technology.

1.6 Asset quality

The short-term outlook for asset quality remains stable, and there is cautious optimism that the group's gross impaired loans (GIL) ratio may already have peaked (was 3.3% end-June 2023). Management nevertheless remains cautious of the overall outlook into next year, particularly with headwinds on the global macro front. Sectors that bear monitoring include property development, commercial property and retail.

Also, with the weakening of the MYR, trade and manufacturing lines are being scrutinised. Consumer and SME loans appear manageable and it would be the commercial/corporate exposures that will be closely monitored.

There does not appear to be stress among companies that have high USD debt exposure, given relatively decent leverage and interest coverage levels.

1.7 Provision levels remain ample

COVID-related overlays in Malaysia have predominantly been reallocated, but remain largely intact in Thailand and Indonesia. Management is comfortable with its provision levels for loans under repayment assistance, more so for the corporate/commercial loans. On the SME front, there is excess provision which is being reallocated to corporate/commercial loans.

With the outlook for impaired loans being relatively benign, there is room, we believe, for credit cost to surprise positively. Our current credit cost assumption of 50bps for FY23E is at the high end of management's 40-50bps guidance, while our 40bps estimate for FY24/25E is also a fairly elevated assumption.

Group loan loss coverage (LLC) was 91.6% end-June 2023. With no significant write-backs in 2H23 and amid expectations of stable GIL ratios, the group's LLC ratio is expected to remain stable.

1.8 Managing dividend payout ratios

CIMB Group's dividend payout ratio has since moved up to 55% from 50%, against the backdrop of a CET1 ratio of 14.2% end-June 2023. While the group has a dividend payout policy of 40-60%, moving it up to 60%, for instance, would be dependent on whether it can sustain a CET1 ratio of at least 14%, in our view. We maintain our payout ratio of 55% from FY23-25E.

1.9 ROE targets remain comfortable

Management remains comfortable with and committed to its ROE target of 10.2%-11% for FY23 (1H23: 10.6%). Our FY23E ROE of 9.8% is lagging management's target. Moving into FY24, management has an ROE target of 11.5-12.5%, for which our estimate of 10% is also lagging. Positive surprises here would undoubtedly provide the basis for a valuation upgrade for the stock.

2. Risk factors

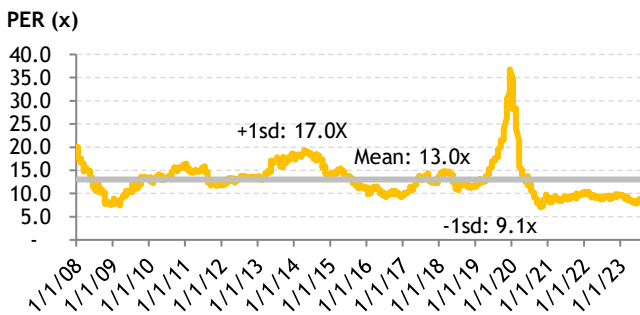
As the second largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group’s operating performance. Moreover, with regional exposures in key markets such as Indonesia, Thailand and Singapore, economic volatility in the region would have a bearing on overall operations.

Fig 1: CIMB Group’s foreign shareholding



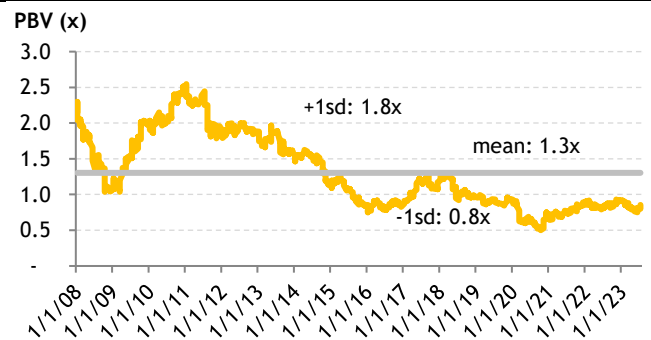
Source: Company

Fig 2: CIMB Group: One-year forward rolling PER (x)



Source: Bloomberg data, Maybank IBG Research

Fig 3: CIMB Group: One-year forward rolling P/BV



Source: Bloomberg data, Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Core P/E (x)	11.8	11.1	9.3	8.7	8.1
Core FD P/E (x)	12.7	11.1	9.3	8.7	8.1
P/BV (x)	0.9	1.0	0.9	0.9	0.8
P/NTA (x)	1.1	1.1	1.0	1.0	0.9
Net dividend yield (%)	4.2	4.5	5.8	6.2	6.7

INCOME STATEMENT (MYR m)

Interest income	16,095.7	18,645.8	22,965.9	24,036.2	24,997.1
Interest expense	(5,221.3)	(7,016.1)	(12,003.7)	(12,590.7)	(13,169.8)
Net interest income	10,874.4	11,629.6	10,962.2	11,445.4	11,827.2
Islamic banking income	3,533.5	3,999.8	4,319.8	4,665.4	5,038.7
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	2,067.3	2,206.0	2,095.7	2,200.5	2,310.5
Other income	1,812.1	2,002.1	3,056.7	3,171.5	3,490.6
Total non-interest income	3,879.3	4,208.1	5,152.3	5,372.0	5,801.1
Operating income	18,287.2	19,837.6	20,434.4	21,482.9	22,667.0
Staff costs	(5,428.4)	(5,539.4)	(5,816.4)	(6,107.2)	(6,412.6)
Other operating expenses	(3,990.5)	(3,806.1)	(4,007.3)	(4,167.2)	(4,330.1)
Operating expenses	(9,418.9)	(9,345.5)	(9,823.7)	(10,274.4)	(10,742.6)
Pre-provision profit	8,868.3	10,492.1	10,610.7	11,208.5	11,924.4
Loan impairment allowances	(2,613.6)	(1,952.7)	(2,091.3)	(1,978.0)	(2,069.0)
Other allowances	(1,758.9)	(208.5)	(50.0)	(100.0)	(100.0)
Associates & JV income	68.0	40.2	42.3	44.4	46.5
Pretax profit	4,563.8	8,371.1	8,511.6	9,174.9	9,801.9
Income tax	(1,396.9)	(2,778.1)	(2,042.8)	(2,202.0)	(2,352.5)
Minorities	(97.3)	(153.1)	(129.4)	(139.5)	(149.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	3,069.6	5,439.9	6,339.5	6,833.4	7,300.5
Core net profit	4,648.2	5,439.9	6,339.5	6,833.4	7,300.5

BALANCE SHEET (MYR m)

Cash & deposits with banks	50,283.2	47,105.3	49,460.6	51,933.6	54,530.3
Sec. under resale agreements	5,885.5	9,751.3	10,726.4	11,799.0	12,978.9
Derivatives financial assets	11,989.6	18,072.2	18,975.8	19,924.6	20,920.8
Dealing securities	40,279.2	33,200.3	33,532.3	33,867.6	34,206.3
Available-for-sale securities	116,448.9	123,209.8	129,370.2	135,838.8	142,630.7
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	364,684.8	394,557.2	418,035.4	437,647.6	457,425.8
Central bank deposits	4,676.2	10,905.1	11,998.4	12,560.3	13,126.1
Investment in associates/JVs	2,952.1	2,467.0	2,537.9	2,613.8	2,694.9
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	2,748.6	2,656.3	2,789.1	2,928.6	3,075.0
Intangible assets	8,301.6	8,181.0	8,181.0	8,181.0	8,181.0
Other assets	13,657.3	16,616.0	16,888.0	17,165.4	17,448.5
Total assets	621,907.1	666,721.2	702,495.0	734,460.1	767,218.2
Deposits from customers	432,845.3	446,634.6	475,040.2	497,326.8	519,802.0
Deposits from banks & FIs	30,701.9	34,189.2	35,898.7	37,693.6	39,578.3
Derivatives financial instruments	10,895.5	17,460.5	18,333.6	19,250.2	20,212.7
Subordinated debt	10,128.6	11,014.5	11,014.5	11,014.5	11,014.5
Other securities in issue	13,379.0	9,918.2	9,918.2	9,918.2	9,918.2
Other borrowings	37,292.9	44,188.0	47,945.6	52,065.8	56,584.4
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	26,555.2	39,532.3	35,921.9	35,554.1	35,036.9
Total liabilities	561,798.3	602,937.4	634,072.7	662,823.2	692,147.1
Share capital	27,099.7	29,094.5	29,094.5	29,094.5	29,094.5
Reserves	31,763.6	33,396.7	37,905.8	40,980.8	44,266.0
Shareholders' funds	58,863.3	62,491.2	67,000.3	70,075.4	73,360.6
Preference shares	200.0	200.0	200.0	200.0	200.0
Minority interest	1,045.5	1,092.6	1,222.0	1,361.5	1,510.5
Total equity	60,108.7	63,783.9	68,422.4	71,636.9	75,071.1
Total liabilities & equity	621,907.1	666,721.2	702,495.0	734,460.1	767,218.2

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth (%)					
Net interest income	6.4	6.9	(5.7)	4.4	3.3
Non-interest income	(1.5)	8.5	22.4	4.3	8.0
Operating expenses	4.9	(0.8)	5.1	4.6	4.6
Pre-provision profit	9.2	18.3	1.1	5.6	6.4
Core net profit	225.1	17.0	16.5	7.8	6.8
Gross loans	3.3	7.7	5.5	4.7	4.5
Customer deposits	6.7	3.2	6.4	4.7	4.5
Total assets	3.2	7.2	5.4	4.6	4.5
Profitability (%)					
Non-int. income/Total income	21.2	21.2	25.2	25.0	25.6
Average lending yields	3.48	3.82	4.37	4.37	4.38
Average cost of funds	1.23	1.57	2.50	2.49	2.48
Net interest margin	2.45	2.51	2.32	2.33	2.33
Cost/income	51.5	47.1	48.1	47.8	47.4
Liquidity (%)					
Loans/customer deposits	84.3	88.3	88.0	88.0	88.0
Asset quality (%)					
Net NPL	1.5	1.5	1.7	1.7	1.7
Gross NPL	3.5	3.3	3.2	3.2	3.2
(SP+GP)/average gross loans	0.7	0.5	0.5	0.5	0.5
Loan loss coverage	100.2	93.1	83.7	83.7	83.7
Capital adequacy (%)					
CET1	14.2	14.2	15.6	15.7	15.9
Tier 1 capital	15.1	15.1	16.4	16.5	16.6
Risk-weighted capital	18.0	18.0	19.1	19.1	19.1
Returns (%)					
ROAE	8.1	9.0	9.8	10.0	10.2
ROAA	0.8	0.8	0.9	1.0	1.0
Shareholders equity/assets	9.5	9.4	9.5	9.5	9.6

Source: Company; Maybank IBG Research

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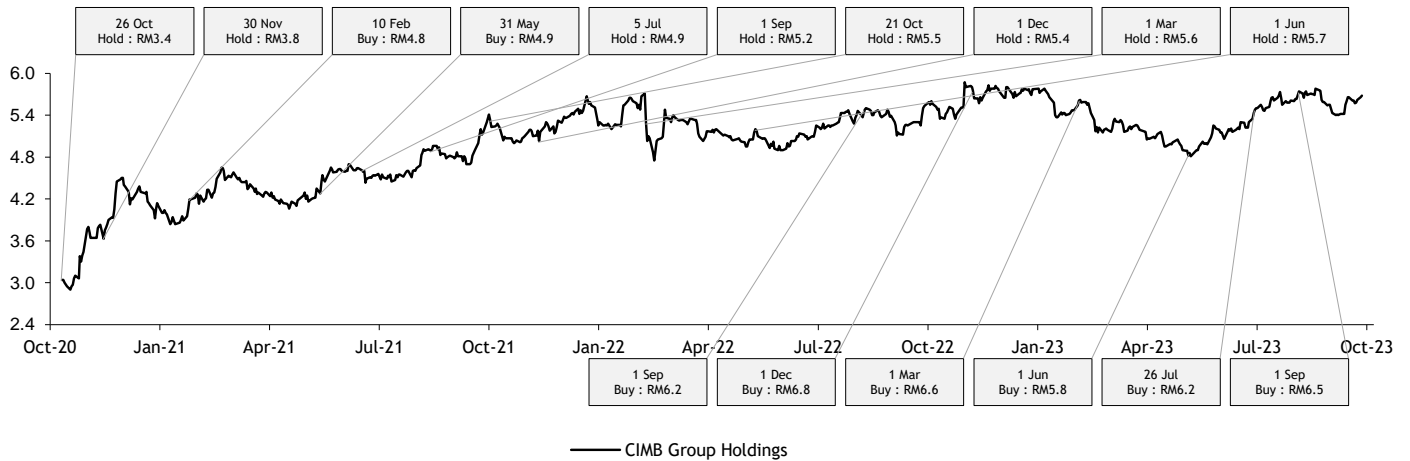
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