

CIMB Group Holdings (CIMB MK)

3Q23 results above expectations

BUY maintained

CIMB's 3Q23 earnings were above expectations, and we have raised FY23-24E earnings by 2-5%. Our FY23E ROE of 10.2% is at the lower end of management's target of 10.2-11%. Our TP is raised to MYR6.70 (+20sen), on an unchanged FY24E PBV of 1x, supported by a FY24E ROE of 10.2%.

Above expectations

CIMB's 3Q23 core net profit of MYR1.85b (+31% YoY, +4% QoQ) took 9M23 core net profit to MYR5.26b (+28% YoY) - above expectations at 83%/80% of our full-year forecast and consensus respectively. The positive surprise emanated from much stronger-than-expected non-interest income (NOII) and lower-than-expected provisions in 3Q23.

Targets largely maintained

Management's targets for FY23E are largely maintained, but positively, credit cost guidance has been lowered to 35-45bps from 40-50bps previously. Loan growth is tracking guidance of 6-7% while the group's cost/income ratio of 46.3% is in line with management's target of <46.5%. A disappointment, however, is that NIM contraction of 26bps in 9M23 is larger than management's expectation of a 15-20bps contraction. Expectation is that NIM is likely to see a bit more of a QoQ contraction in 4Q23 due to the pick-up in domestic deposit competition. Positive, however, is that the 9M23 ROE of 10.7% is trending towards the higher end of management's 10.2-11% target for the year.

ROE estimates continue to trail management's

We raise our FY23-25E earnings by 5%/2%/2% respectively, mainly to factor in lower credit cost. Correspondingly, we now expect a higher ROE of 10.2%/10.2% for FY23/24E respectively versus 9.8%/10% before. Our ROE forecast is at the lower end of management's target of 10.2-11% this year and below the target of 11.5-12.5% for FY24 (for which management believes the lower end is more realistic).

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	18,287	19,838	20,198	21,469	22,666
Pre-provision profit	8,868	10,492	10,375	11,195	11,924
Core net profit	4,648	5,440	6,631	6,987	7,471
Core EPS (MYR)	0.46	0.52	0.64	0.67	0.72
Core EPS growth (%)	221.8	12.5	21.9	5.4	6.9
Net DPS (MYR)	0.23	0.26	0.34	0.36	0.39
Core P/E (x)	11.8	11.1	8.9	8.4	7.9
P/BV (x)	0.9	1.0	0.9	0.9	0.8
Net dividend yield (%)	4.2	4.5	6.0	6.4	6.9
Book value (MYR)	5.76	5.86	6.29	6.59	6.90
ROAE (%)	8.1	9.0	10.2	10.2	10.4
ROAA (%)	0.8	0.8	1.0	1.0	1.0
Consensus net profit	-	-	6,498	6,998	7,542
MIBG vs. Consensus (%)	-	-	2.1	(0.2)	(0.9)

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BUY

Share Price	MYR 5.65
12m Price Target	MYR 6.70 (+19%)
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)	5.83/4.81
3m avg turnover (USDm)	15.5
Free float (%)	62.6
Issued shares (m)	10,665
Market capitalisation	MYR60.3B
	USD13.0B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	23.0%
Employees Provident Fund	13.8%
Permodalan Nasional Bhd.	9.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	0	(3)
Relative to index (%)	(1)	1	0

Source: FactSet

Fig 1: CIMB - Results summary

FYE Dec (MYR m)	Quarterly results					Cumulative		
	3Q23	3Q22	% YoY	2Q23	% QoQ	9M23	9M22	% YoY
Interest income	6,548.3	4,782.9	36.9	6,171.9	6.1	18,438.0	13,020.8	41.6
Interest Expense	(3,707.7)	(1,802.9)	105.7	(3,415.6)	8.6	(10,127.6)	(4,498.4)	125.1
Net Interest income	2,840.6	2,980.1	(4.7)	2,756.2	3.1	8,310.4	8,522.4	(2.5)
Islamic banking income	1,089.5	1,066.1	2.2	1,061.5	2.6	3,140.1	2,967.6	5.8
Non-interest income	1,378.0	951.0	44.9	1,516.2	(9.1)	4,188.8	3,127.8	33.9
Operating income	5,308.1	4,997.1	6.2	5,334.0	(0.5)	15,639.3	14,617.9	7.0
Operating expenses	(2,491.8)	(2,281.0)	9.2	(2,405.1)	3.6	(7,240.3)	(6,858.0)	5.6
Operating Profit	2,816.3	2,716.2	3.7	2,928.9	(3.8)	8,398.9	7,759.8	8.2
Loan impairment allowance	(296.7)	(488.5)	(39.3)	(558.1)	(46.8)	(1,160.8)	(1,231.1)	(5.7)
Other provisions	(15.6)	(22.8)	(31.4)	123.0	NM	(31.3)	(185.8)	(83.1)
Associates & JVs	(11.8)	(3.0)	292.9	(12.4)	(4.3)	3.2	11.4	(71.9)
Pretax profit	2,492.1	2,201.9	13.2	2,481.5	0.4	7,210.0	6,354.4	13.5
Taxation	(600.9)	(755.3)	(20.4)	(660.7)	(9.0)	(1,808.3)	(2,116.6)	(14.6)
Minority interest	(43.4)	(39.3)	10.4	(47.8)	(9.2)	(135.9)	(122.9)	10.6
Net profit	1,847.8	1,407.2	31.3	1,773.1	4.2	5,265.8	4,114.9	28.0
Recurring net profit	1,847.8	1,407.2	31.3	1,773.1	4.2	5,265.8	4,114.9	28.0
EPS (sen) (basic)	17.3	13.4	29.0	16.6	4.3	49.4	39.7	24.4
DPS (sen)	-	-	-	17.50	-	17.5	13.0	34.6
Cost-to-income (%)	46.9	45.6	1.3	45.1	1.9	46.3	46.9	(0.6)
Tax rate (%)	24.1	34.3	(10.2)	26.6	(2.5)	25.1	33.3	(8.2)
Balance sheet (MYR m)	Sep-23	Sep-22	% YoY	Jun-23	% QoQ	Sep-23	Dec 22	YTD chg
Customer loans (gross)	431,802	406,004	6.4	426,990	1.1	431,802	407,057	6.1
Customer loans (net)	418,677	391,718	6.9	413,824	1.2	418,677	394,555	6.1
Deposits from customers	474,042	437,719	8.3	471,355	0.6	474,042	446,635	6.1
			ppt chg		ppt chg			ppt chg
LDR (%)	91.1	92.8	(1.7)	90.6	0.5	91.1	91.1	(0.0)
Gross impaired loans	13,713	14,163	(3.2)	14,284	(4.0)	13,713	13,321	2.9
Gross impaired loans ratio (%)	3.2	3.5	(0.3)	3.3	(0.2)	3.2	3.3	(0.1)

Sources: Company Announcement

Key highlights

Loan growth: Stripping out FX effects, group loans expanded 5.2% YoY with growth of 4.2% in Malaysia, 5.2% in Indonesia, 11.8% in Thailand and 7.0% in Singapore. Reported loans growth of 6.4% is tracking management's loan growth target of 6-7% for FY23E.

Deposit growth: Group deposit growth was 7.4% YoY (excluding forex), but CASA expanded at a slower pace of 2.1% YoY. The CASA ratio improved slightly QoQ to 39.2% end-Sep 2023 from 38.5% end-June 2023. Deposits rose 5.0% and 6.0% in Malaysia and Indonesia respectively. It rose 16% in Thailand and 16.2% in Singapore.

Net interest margin (NIM): NIM held steady and improved 1bps QoQ to 2.25% in 3Q23. 9M23 NIM of 2.25% compares to a NIM average of 2.51% in FY22, down 26bps YoY. This is larger than management's earlier guidance for a contraction of 15-20bps, and expectations are that NIM may compress a bit more in 4Q23 due to the year-end pick-up in domestic deposit competition.

Non-interest income (NOII): NOII jumped 45% YoY in 3Q23 and was up 34% YoY in 9M23. This was mainly driven by a) MTM investment gains as opposed to losses in 9M22, b) much lower forex losses and c) and gains from NPL sales.

Operating expenses: Operating expense rose 5.6% YoY in 9M23, with personnel costs up 6.0% YoY. Spending on technology increased 8.6% YoY. The group reported positive JAWS in 9M23, and its CIR improved to 46.3% in 9M23 from 46.9% in 9M22.

Credit cost: Asset quality held steady with the gross impaired loans (GIL) ratio declining slightly to 3.2% end-Sep 2023 from 3.3% end-June 2023. Loan loss charge declined to just 21bps in 3Q23 from 39bps in 2Q23, averaging 32bps in 9M23 versus 51bps in FY22. This is lower than management's earlier credit cost guidance of 40-50bps for FY23E and guidance has been lowered to 35-45bps. Loan loss coverage end-Sep 2023 averaged a higher 95% versus 91.6% end-June 2023.

Capital ratios: The group's CET1 ratio was comfortable at 14.4% end-Sep 2023. The group had earlier raised its dividend payout ratio to 55% from 50%, against a dividend payout policy of 40-60%.

Risk statement

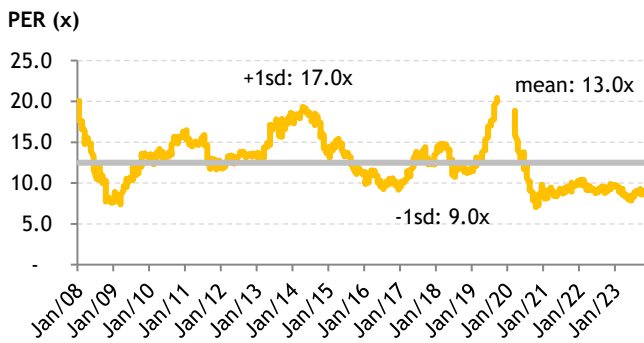
As the second largest domestic financial institution in Malaysia in terms of asset size, any economic slowdown in the country would have a knock-on effect on the group's operating performance. Moreover, with regional exposures in key markets such as Indonesia, Thailand and Singapore, economic volatility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

Fig 2: CIMB Group's foreign shareholding



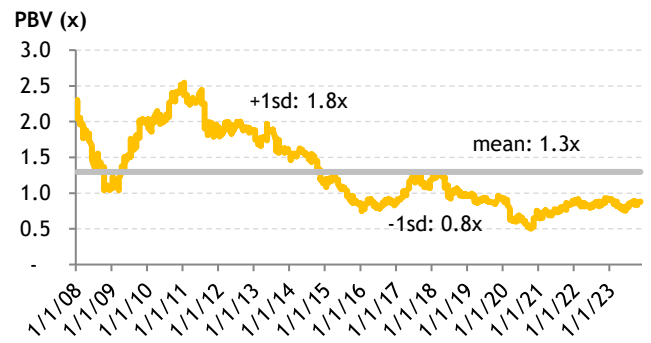
Source: Company

Fig 3: CIMB Group: One-year forward rolling PER (x)



Source: Bloomberg data, Maybank IBG Research

Fig 4: 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	8.9	8.4	7.9
Core FD P/E (x)	12.7	11.1	8.9	8.4	7.9
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	6.0	6.4	6.9

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)	(12,489.8)	(12,955.4)	(13,322.4)
Net interest income	10,874.4	11,629.6	10,476.1	11,080.8	11,674.7
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	3,306.7	3,522.5	3,642.6
Total non-interest income	3,879.3	4,208.1	5,402.3	5,723.0	5,953.1
Operating income	18,287.2	19,837.6	20,198.3	21,469.2	22,666.4
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	10,374.6	11,194.8	11,923.8
Loan impairment allowances	(2,613.6)	(1,952.7)	(1,463.9)	(1,758.2)	(1,839.1)
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	8,902.9	9,381.0	10,031.2
Income tax	(1,396.9)	(2,778.1)	(2,136.7)	(2,251.4)	(2,407.5)
Minorities	(97.3)	(153.1)	(135.3)	(142.6)	(152.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	3,069.6	5,439.9	6,630.9	6,987.0	7,471.3
Core net profit	4,648.2	5,439.9	6,630.9	6,987.0	7,471.3

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	35,784.8	35,344.8	34,747.2
Total liabilities	561,798.3	602,937.4	633,935.6	662,613.9	691,857.4
Share capital	27,099.7	29,094.5	29,094.5	29,094.5	29,094.5
Reserves	31,763.6	33,396.7	38,036.9	41,181.1	44,543.2
Shareholders' funds	58,863.3	62,491.2	67,131.5	70,275.6	73,637.7
Preference shares	200.0	200.0	200.0	200.0	200.0
Minority interest	1,045.5	1,092.6	1,228.0	1,370.6	1,523.0
Total equity	60,108.7	63,783.9	68,559.5	71,846.2	75,360.7
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	(9.9)	5.8	5.4
Non-interest income	(1.5)	8.5	28.4	5.9	4.0
Operating expenses	4.9	(0.8)	5.1	4.6	4.6
Pre-provision profit	9.2	18.3	(1.1)	7.9	6.5
Core net profit	225.1	17.0	21.9	5.4	6.9
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	26.7	26.7	26.3
Average lending yields	3.48	3.82	4.37	4.37	4.38
Average cost of funds	1.23	1.57	2.60	2.56	2.51
Net interest margin	2.45	2.51	2.24	2.27	2.31
Cost/income	51.5	47.1	48.6	47.9	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	0.4	0.4	0.4
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	16.7
Risk-weighted capital	18.0	18.0	19.1	19.2	19.2
Returns (%)					
ROAE	8.1	9.0	10.2	10.2	10.4
ROAA	0.8	0.8	1.0	1.0	1.0
Shareholders equity/assets	9.5	9.4	9.6	9.6	9.6

Source: Company; Maybank IBG Research

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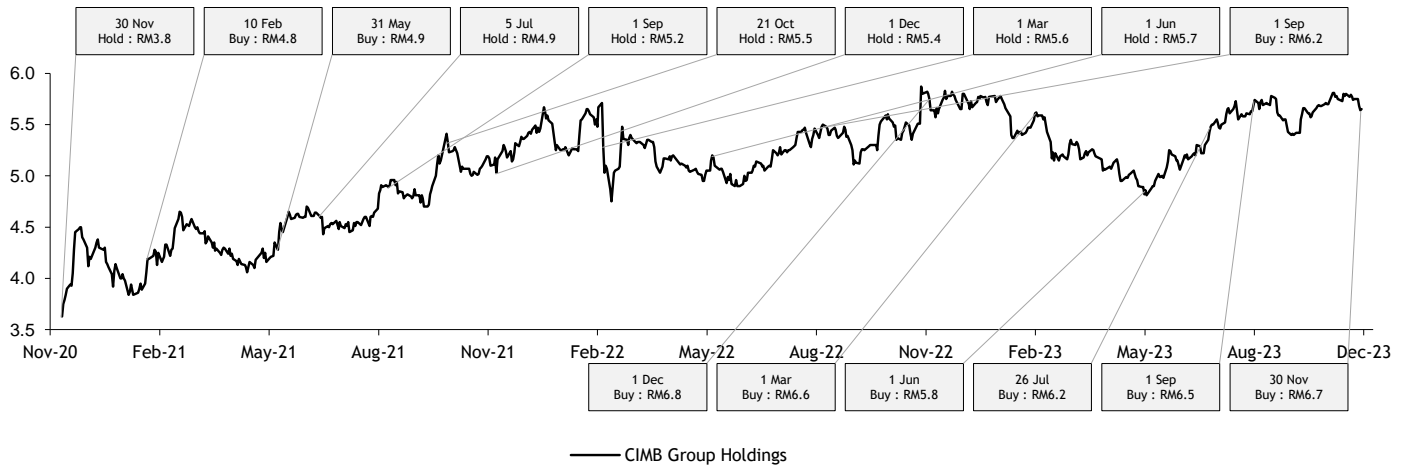
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