



AmInvestment Bank

Company report

CIMB GROUP

(CIMB MK EQUITY, CIMB.KL)

01 Nov 2022

On track to meet FY22F targets

BUY

(Maintained)

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Rationale for report: Company update

Price	RM5.52
Fair Value	RM6.70
52-week High/Low	RM5.75/RM4.72

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY21	FY22F	FY23F	FY24F
Total income (RM mil)	19,512.9	20,519.7	21,601.8	22,659.5
Core net profit (RM mil)	4,767.3	6,080.6	6,595.6	6,802.6
FD Core EPS (sen)	47.6	60.7	65.8	67.9
FD Core EPS growth (%)	269.7	27.5	8.5	3.1
Consensus Net Profit (RM mil)	-	5,398.0	6,454.0	6,949.0
DPS (sen)	23.0	26.8	32.9	33.9
BV/share (RM)	5.89	6.28	6.61	6.95
PE (x)	11.6	9.1	8.4	8.1
Div yield (%)	4.1	4.8	5.9	6.1
P/BV (x)	0.9	0.9	0.8	0.8
ROE (%)	7.5	10.0	10.2	10.0

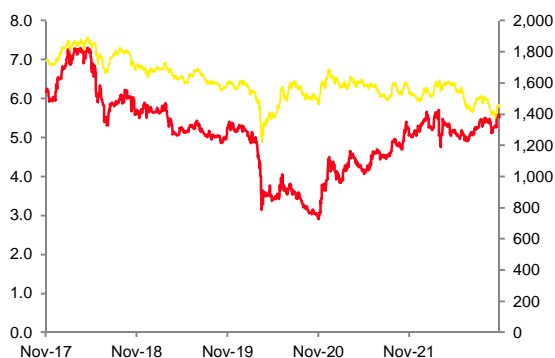
Stock and Financial Data

Shares Outstanding (million)	10,221.5
Market Cap (RM mil)	56,422.7
Book Value (RM/share)	5.89
P/BV (x)	0.9
ROE (%)	7.5

Major Shareholders	Khazanah Nasional (24.5%)
	Employees Provident Fund (14.2%)
	Amanah Saham Nasional (10.3%)

Free Float	44.4
Avg Daily Value (RM mil)	76.9

Price performance	3mth	6mth	12mth
Absolute (%)	6.0	6.2	5.7
Relative (%)	8.3	16.3	13.1



— CIMB MK — FBMKLCI Index

Investment Highlights

- We maintain BUY on CIMB Group Holdings (CIMB) with unchanged fair value (FV) of RM6.70/share pegging the stock to FY23F P/BV of 1.0x and ROE of 10.2%.
- No changes to our neutral 3-star ESG rating and our earnings estimates.
- CIMB provided updates on the group through a virtual meeting yesterday.
- We gathered that there were no significant changes to the group and its Malaysian operation's loans under the moratorium, restructuring and rescheduling (R&R) segment. Both percentages were still at 3%, similar to the end of July 2022. Also, the percentage of missed loans payments was unchanged at 6%.
- 3QFY22 is likely to see a mild uptick in delinquencies for consumer loans. The group has taken the opportunity to increase provisions conservatively for some borrowers in 3QFY22. This included provisions for commercial loans in Malaysia and the topping up for a legacy borrower related to the steel sector in Indonesia.
- In 4QFY22, the group is also looking into opportunities to raise pre-emptive provisions by adjusting macro-economic factors (MEFs). Additionally, it is reviewing certain loan buckets to see if top up in management overlays would be necessary. Overall, from the tone of management, the group's credit cost is expected to still be within the guided 50-60bps for FY22F.
- In the near term, some release of provisions are expected from borrowers making repayments, higher utilisation of facilities and loans that will be coming out of the 12-month observation period after the expiry of repayment assistance programme in 4QFY22. Nevertheless, the group intends to maintain its stock of pre-emptive provisions (MEFs and overlays) until the end of FY22. As a result, the group plans to refresh the MEFs in 4Q22 to conservatively raise provisions. Any significant write backs in management overlays will only be likely in FY23.
- Deposit competition has already been seen in Malaysia, Thailand and Singapore with rates rising between 5-15bps depending on the segment and tenor of deposits. However, the positive effects of the consecutive interest rate hikes on net interest income (NII) and NIM are still expected to outweigh the impact of higher rates for fresh deposit funds from stiffer deposit competition in FY22.

Recall on the sensitivity to interest rates in Malaysia, every 25bps increase in OPR would lift the group's NII by 80-100mil and NIM by 2bps.

Meanwhile, we gathered that the impact of higher interest rates to Indonesia, Thailand and Singapore operations will broadly be neutral.

Owing to the higher quantum of rate hikes in Malaysia in 2022 vs. 2023 while competition for deposits is expected to persist moving into next year, we expect an uplift in the group's NIM by 5bps in FY22F and flattish interest margin in FY23F.

- CASA growth is expected to continue to be slower ahead in line with the industry trend. This is expected due to the shift in individual CASAs to FDs as a result of higher rates offered for time deposits in the market of late. Meanwhile, growth in CASA from SMEs has also slowed down recently.
- We expect another 25bps OPR hike in Nov 2022 and a further 25bps adjustment in Jan 2023, normalising the local benchmark interest rate to 3.00% (pre-pandemic level).
- Effective 1 Jan 2023, MGS and MGII holdings of banks will no longer be recognised as part of the regulatory authorities' statutory reserve requirement (SRR) ratio of 2.0%. The flexibility granted earlier will end on 31 Dec 2022. The reversion to maintain deposits with BNM for the SRR requirement will have a slight negative impact on the group's NIM.
- The group is scheduled to release its 3QFY22 results on 30 Nov 2022.
- We expect the group's net profit in 3QFY22 to be decent. This will be supported by stronger NII from consecutive rate hikes in Malaysia, partially offset by softer NOII with the absence of lumpy IB fees and income from sale of NPLs and loans in Niaga coupled with higher provisions set aside prudently. We expect CIMB group's operating expenses (opex) to remain well controlled with room for further cost take-out.
- Valuation remains attractive with the stock trading at 0.8x P/BV with a dividend yield of 6% for FY23F. We continue to be positive on improving fundamentals of the group with the expectation of stronger earnings underpinned by higher operating income, cost optimisation and lower provisions.

EXHIBIT 1: PB BAND CHART

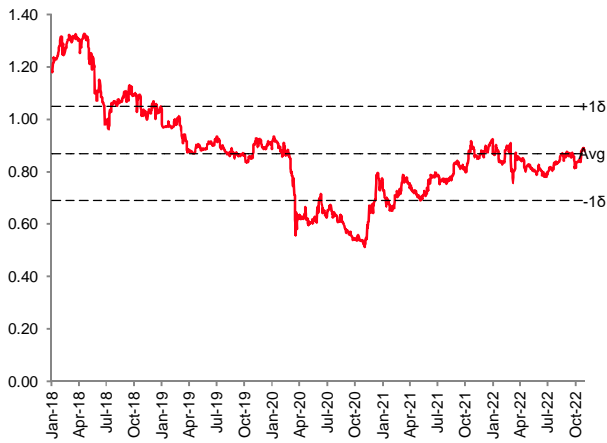


EXHIBIT 2: PE BAND CHART

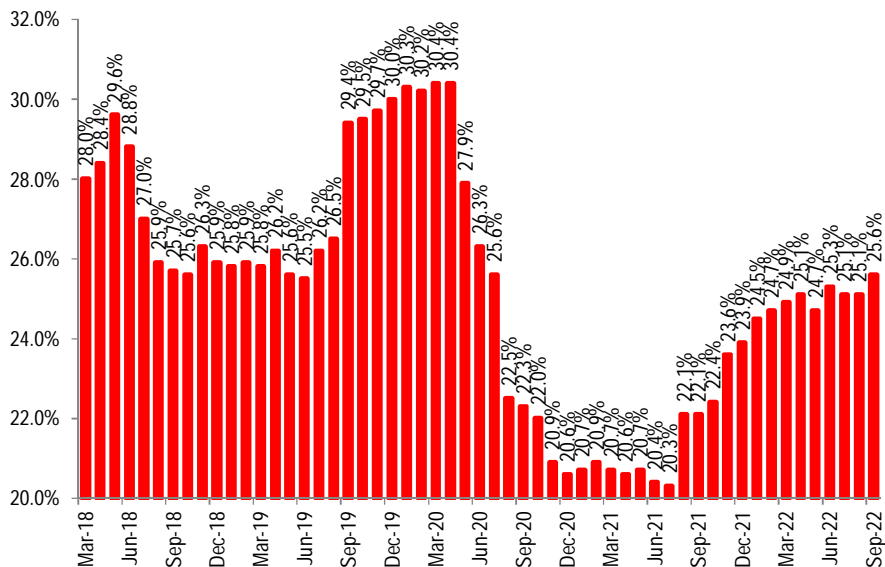


EXHIBIT 3: ESG RATING

Overall	★	★	★		
Board composition	★	★	★		
Employee welfare and environmental protection	★	★	★		
Corporate social responsibility	★	★	★		
Earnings quality	★	★	★		
Balance sheet strength	★	★	★		
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 4: FOREIGN SHAREHOLDINGS



Source: Company, AmInvestment Bank Bhd

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Net interest income	10,440.0	10,936.5	11,640.7	12,098.1	12,683.3
Non-interest income	4,032.5	5,105.0	5,070.0	5,400.6	5,554.7
Islamic banking income	2,937.5	3,533.5	3,809.1	4,103.1	4,421.5
Total income	17,189.0	19,512.9	20,519.7	21,601.8	22,659.5
Overhead expenses	(8,976.8)	(9,418.9)	(9,849.5)	(10,368.9)	(10,650.0)
Pre-provision profit	8,212.2	10,094.0	10,670.2	11,232.9	12,009.5
Loan loss provisions	(5,341.2)	(2,613.6)	(2,286.7)	(2,036.5)	(1,742.3)
Impairment & others	(1,456.2)	(1,758.9)	(514.8)	(402.0)	(245.4)
Associates	116.5	68.0	59.7	52.1	28.0
Pretax profit	1,531.3	5,789.5	7,928.4	8,846.5	10,049.8
Tax	(383.8)	(1,396.9)	(2,457.5)	(2,123.2)	(3,115.4)
Minority interests	47.9	(97.3)	(103.9)	(127.7)	(131.8)
Net profit	1,195.4	4,295.3	5,367.0	6,595.6	6,802.6
Core net profit	1,276.7	4,767.3	6,080.6	6,595.6	6,802.6
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Cash & deposits with FIs	39,563.4	45,669.5	70,499.2	58,226.8	55,081.9
Marketable securities	173,279.8	179,217.0	172,703.3	182,899.3	193,289.8
Total current assets	212,843.2	224,886.5	243,202.5	241,126.0	248,371.6
Net loans & advances	353,916.0	364,684.8	381,285.1	407,297.3	435,567.0
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	4,411.6	4,676.2	3,774.0	2,754.3	2,607.9
Fixed assets	2,407.4	2,069.0	2,010.4	1,911.2	1,781.1
Intangible assets	10,414.3	8,981.2	8,981.2	8,981.2	8,981.2
Other long-term assets	18,362.5	16,609.5	15,496.9	14,844.2	8,722.0
Total LT assets	389,511.7	397,020.6	411,547.5	435,788.1	457,659.2
Total assets	602,355.0	621,907.1	654,750.0	676,914.2	706,030.8
Customer deposits	405,729.5	432,845.3	458,997.3	489,059.1	521,852.3
Deposits of other FIs	31,791.2	30,701.9	35,231.5	40,174.7	43,400.5
Subordinated debts	12,808.5	10,128.6	9,216.3	8,121.4	6,987.7
Hybrid capital securities	20,661.2	13,928.7	14,234.4	13,983.6	12,575.1
Other liabilities	74,190.4	74,193.9	72,912.4	58,035.8	50,190.2
Total liabilities	545,180.8	561,798.3	590,591.9	609,374.5	635,005.8
Shareholders' funds	56,125.7	59,063.3	62,961.9	66,280.3	69,700.7
Minority interests	1,048.5	1,045.5	1,196.3	1,259.3	1,324.3
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Total income growth (%)	(3.4)	13.5	5.2	5.3	4.9
Pre-provision profit growth (%)	3.7	22.9	5.7	5.3	6.9
Core net profit growth (%)	(73.2)	273.4	27.5	8.5	3.1
Net interest margin (%)	2.4	2.4	2.5	2.5	2.5
Cost-to-income ratio (%)	52.2	48.3	48.0	48.0	47.0
Effective tax rate (%)	25.1	24.1	31.0	24.0	31.0
Dividend payout (%)	39.9	53.6	50.0	50.0	50.0
Key Assumptions (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Loan growth (%)	(1.0)	3.3	6.0	7.0	7.0
Deposit growth (%)	2.5	6.7	6.0	6.5	6.7
Loan-deposit ratio (%)	87.2	84.3	83.1	83.3	83.5
Gross NPL (%)	3.6	3.5	3.7	3.5	3.0
Net NPL (%)	0.3	-	0.9	0.9	0.9
Credit charge-off rate (%)	1.5	0.7	0.6	0.5	0.4
Loan loss reserve (%)	91.6	100.2	130.9	142.9	168.4

Source: Company, AmlInvestment Bank Bhd estimates

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