

COMPANY UPDATE

CIMB Group (CIMB MK)

Resilient In The Face Of Challenges

Management remains fairly optimistic of the group's overall outlook despite the potential negative impact of inflationary pressure and normalisation in interest rates on asset quality. This stems from the group's large stock of pre-emptive provisions. Meanwhile, strong loans growth momentum and potential cost optimisation could provide potential earnings tailwinds. Maintain BUY and target price of RM6.00 (0.93x 2023F P/B, 9.8% 2023 ROE).

WHAT'S NEW

- Asset quality remains stable with possibility of improvement.** CIMB Group (CIMB) is confident about navigating the current economic challenges, including the impact of higher interest rates on asset quality. This confidence stems from the group's proactive measures to reduce risk in its loans in recent years, particularly in Indonesia and Thailand. These efforts are evident in its gross impaired loan (GIL) ratio, which has only increased by 8bp since 4Q22 to 3.35% in 2Q23. Management anticipates that the group's GIL ratio will remain stable and improve going forward. Furthermore, there are no specific large corporate accounts under significant asset quality stress, according to management.
- Sufficient management overlays to withstand potential asset quality headwinds.** Management is confident that CIMB has ample pre-emptive provisions to address any potential GIL deterioration. Instead of reversing their surplus overlays, they have redistributed most of their RM2.0b in overlays across various portfolios.
- Credit cost to remain stable.** With ample management overlays in place, there are no foreseen upside risks to the credit cost guidance. Recently, management revised its 2023 net credit cost guidance down to 40-50bp from 45-55bp, taking into account the positive GIL outlook and strategic allocation of overlays. We are maintaining our 40bp assumption for 2023 net credit costs, with a slight expected increase in the second half of 2023 to the 40-50bp range, compared to 38bp in the first half.
- More rational deposit competition.** CIMB has reduced the rates for new fixed deposit campaigns in Malaysia by 25bp since Apr 23, signaling a more rational deposit competition.
- Sequential recovery in NIM in 3Q23.** The easing of deposit competition and positive impact of the 25bp overnight policy rate (OPR) hike in May 23 has resulted in a slight overall qoq improvement in group NIM, with the gain in Malaysia more than compensating for slight NIM pressure in Indonesia. Nevertheless, we still expect a full-year 2023 NIM compression of 18bp, compared to a 22bp compression in the first half of the year. This aligns with management's forecast of -15bp to -20bp, implying a projected NIM recovery starting from 3Q23. In 2024, we project a flattish NIM trend.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net interest income	10,936	11,623	11,292	11,787	12,458
Non-interest income	3,955	4,198	4,452	4,671	4,908
Net profit (rep./act.)	4,357	5,433	6,421	7,072	7,615
Net profit (adj.)	4,357	5,433	6,421	7,072	7,615
EPS (sen)	43.5	52.6	61.0	65.9	69.7
PE (x)	13.1	10.8	9.3	8.6	8.2
P/B (x)	1.0	0.9	0.9	0.8	0.8
Dividend yield (%)	4.0	4.6	5.4	5.8	6.1
Net int margin (%)	2.5	2.6	2.4	2.4	2.4
Cost/income (%)	51.1	47.2	48.2	47.8	47.1
Loan loss cover (%)	100.3	93.1	98.2	110.0	114.1
Consensus net profit	-	-	6,512	6,975	7,531
UOBKH/Consensus (x)	-	-	0.99	1.01	1.01

Source: CIMB Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM5.68
Target Price	RM6.00
Upside	+10.6%

COMPANY DESCRIPTION

CIMB Group is Malaysia's largest investment bank and second-largest consumer bank and one of Southeast Asia's leading universal banking groups

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	CIMB MK
Shares issued (m):	10,665.1
Market cap (RMm):	60,911.5
Market cap (US\$m):	12,661.3
3-mth avg daily t'over (US\$m):	14.7

Price Performance (%)

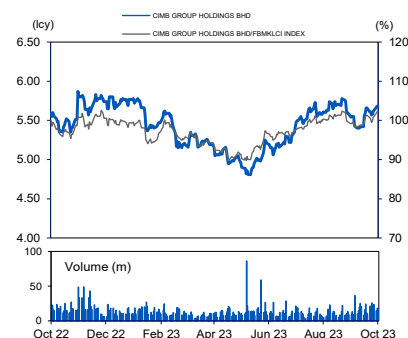
52-week high/low	RM5.87/RM4.81			
1mth	3mth	6mth	1yr	YTD
1.6	6.2	9.4	2.7	(2.1)

Major Shareholders

	%
Khazanah Nasional Berhad	24.1
Amanah Saham Nasional	13.5
Employees Provident Fund Board	13.2

FY23 NAV/Share (RM)	6.48
FY23 CAR Tier-1 (%)	16.23

PRICE CHART



Source: Bloomberg

ANALYST(S)

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ESSENTIALS

- Non-interest income normalising downwards sequentially.** Given the high base effect of 2Q23 non-interest income, due to the strong NPL recovery from CIMB Niaga, management expects non-interest income to normalise downwards in 3Q23. Additionally, trading and forex income has decreased qoq, but this has been partly offset by stronger fee income. Our forecast incorporates the high base effect of non-interest income in 1H23, and we anticipate a 41.6% qoq contraction in non-interest income for 2H23.
- Investment and trading income to face weakness in 4Q23.** Tracking higher US Treasury yields, the 10-year MGS has climbed from 3.92% at end-Aug 23 to the current rate of 4.22%. This increase may result in a possibility of weakness in investment and trading income into 4Q23.
- Loans growth momentum continues to track above guidance.** With no significant disbursements of large corporate loans, the momentum in loans growth for 3Q23 has slowed. However, it is worth noting that despite this slowdown, it remains in line with management's 6-7% growth guidance for 2023 and above our relatively conservative forecast of 5%. To recap, in the first half of 2023, the group achieved robust loans growth at 8.3%, driven by a strong 11.2% growth in wholesale banking loans and commendable growth of 8.0% and 6.7% in commercial and consumer banking respectively.
- Slight uptick in opex growth.** We anticipate opex growth to increase to around 6% yoy in 2H23, compared to 4% in the first half, primarily due to higher IT and marketing expenses. This is expected to result in a full-year opex growth of approximately 5%, which is commendable considering the current inflationary environment.
- Opex to creep upwards in 2024.** Looking ahead to 2024, we project opex growth of 6%, compared to the past four-year average of 2.4% per annum. This higher growth assumption is to account for an anticipated salary increase for unionised staff, even though negotiations have not yet commenced. Management has indicated their intention to start accruing this cost in 2024. Overall, we anticipate a slight improvement in the group's operating Jaws into 2024. Notably, despite the significant pressure on net interest margin (NIM) in 1H23, the group still managed to achieve positive operating Jaws.
- Outlook.** Management has far and large retained its key 2023 guidance of: a) ROE: 10.0-11.0%, b) cost-to-income ratio of <46.5%, c) net credit cost range of 45-55bp, d) loans growth of 5-6%, and e) 15-20bp NIM slippage. In comparison, we have assumed a slightly more conservative ROE of 9.8% as inherent in management's ROE target is a non-interest income growth in excess of 10% vs our 6% growth assumption.

EARNINGS REVISION/RISK

- Unchanged.

VALUATIONS AND RECOMMENDATIONS

- Maintain BUY and target price of RM6.00 (0.93x 2023F P/B, 9.8% ROE).** Our optimism for CIMB is grounded in the potential for a positive ROE upside surprise, primarily fueled by reduced credit costs, strong loan growth and cost optimisation. The company has successfully elevated its ROE from the pre-pandemic range of 8-9% to its current level of 10%. To offer a glimpse of the potential for upside in our target price, if we were to extend our valuations into 2024, our target price would elevate to RM6.45.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> Green loan commitment. To provide RM30b in sustainable financing by 2040. Zero new coal financing. Transition all stakeholders to zero carbon emission by 2050. Social <ul style="list-style-type: none"> Board and upper management gender diversity. Maintained 30% female directors on the Board. Enhanced financial inclusion to B40. Provide greater financial inclusion for vulnerable communities (affordable housing financing) and welfare assistance to vulnerable communities especially the B40 consumers. Governance <ul style="list-style-type: none"> Non-independent board of directors composition. Composition of Independent Non-Executive Directors (INED) – 60 %.
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KEY ASSUMPTIONS

(%)	2023F	2024F	2025F
Loan Growth	5.0	6.0	6.2
Credit Cost (bp)	40.0	39.0	38.0
ROE	9.8	10.1	10.2

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Interest income	18,639	19,695	21,151	22,801
Interest expense	(7,016)	(8,403)	(9,364)	(10,344)
Net interest income	11,623	11,292	11,787	12,458
Fees & commissions	2,227	2,383	2,454	2,602
Other income	1,971	2,069	2,217	2,307
Non-interest income	4,198	4,452	4,671	4,908
Income from islamic banking	4,000	4,520	5,107	5,771
Total income	19,820	20,263	21,566	23,137
Staff costs	(5,539)	(5,767)	(6,228)	(6,728)
Other operating expense	(3,806)	(3,999)	(4,071)	(4,169)
Pre-provision profit	10,475	10,498	11,267	12,240
Loan loss provision	(1,953)	(1,709)	(1,766)	(1,824)
Other provisions	(209)	(350)	(200)	(398)
Associated companies	40	71	72	73
Other non-operating income	10	0	0	0
Pre-tax profit	8,364	8,510	9,372	10,091
Tax	(2,778)	(1,957)	(2,156)	(2,321)
Minorities	(153)	(131)	(144)	(155)
Net profit	5,433	6,421	7,072	7,615
Net profit (adj.)	5,433	6,421	7,072	7,615

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Cash with central bank	10,905	14,956	15,853	16,804
Govt treasury bills & securities	15,602	15,914	16,232	16,557
Interbank loans	3,096	3,378	3,686	4,021
Customer loans	394,557	413,196	437,067	462,419
Investment securities	140,808	158,269	177,767	199,539
Derivative receivables	18,072	20,241	22,670	25,390
Associates & JVs	2,467	2,590	2,720	2,856
Fixed assets (incl. prop.)	2,656	2,545	2,431	2,315
Other assets	78,557	83,174	89,496	97,595
Total assets	666,721	714,263	767,922	827,497
Interbank deposits	34,189	36,413	38,793	41,340
Customer deposits	446,634	468,966	492,414	517,035
Derivative payables	53,384	55,694	58,105	60,621
Debt equivalents	20,933	20,933	20,933	20,933
Other liabilities	47,797	62,843	84,177	109,606
Total liabilities	602,937	644,849	694,422	749,536
Shareholders' funds	62,691	68,190	72,132	76,438
Minority interest - accumulated	1,093	1,224	1,368	1,523
Total equity & liabilities	666,721	714,263	767,922	827,497

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Tier-1 CAR	15.1	16.2	16.9	17.5
Total CAR	19.5	21.2	21.8	22.4
Total assets/equity (x)	10.6	10.5	10.6	10.8
Tangible assets/tangible common equity (x)	12.1	11.8	11.9	12.0
Asset Quality				
NPL ratio	3.3	3.4	3.2	3.2
Loan loss coverage	93.1	98.2	110.0	114.1
Loan loss reserve/gross loans	3.0	3.3	3.5	3.7
Increase in NPLs	0.3	7.8	0.5	7.4
Credit cost (bp)	49.5	40.0	39.0	38.0
Liquidity				
Loan/deposit ratio	88.3	88.1	88.8	89.4
Liquid assets/short-term liabilities	6.1	6.7	6.7	6.7
Liquid assets/total assets	4.4	4.8	4.7	4.5

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	6.3	(2.9)	4.4	5.7
Fees & commissions, yoy chg	6.4	7.0	3.0	6.0
Pre-provision profit, yoy chg	16.3	0.2	7.3	8.6
Net profit, yoy chg	24.7	18.2	10.1	7.7
Net profit (adj.), yoy chg	24.7	18.2	10.1	7.7
Customer loans, yoy chg	8.2	4.7	5.8	5.8
Customer deposits, yoy chg	3.2	5.0	5.0	5.0
Profitability				
Net interest margin	2.6	2.4	2.4	2.4
Cost/income ratio	47.2	48.2	47.8	47.1
Adjusted ROA	0.8	0.9	1.0	1.0
Reported ROE	8.9	9.8	10.1	10.3
Adjusted ROE	8.9	9.8	10.1	10.3
Valuation				
P/BV (x)	0.9	0.9	0.8	0.8
P/NTA (x)	1.1	1.0	1.0	0.9
Adjusted P/E (x)	10.8	9.3	8.6	8.2
Dividend Yield	4.6	5.4	5.8	6.1
Payout ratio	49.4	50.0	50.0	50.0

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