

COMPANY UPDATE

CIMB Group (CIMB MK)

Confident In Meeting ROE Targets

Management was slightly cautious on its NIM outlook in 2023. However, asset quality is holding up stronger than expected despite the higher interest rates. This has helped to underpin management's conviction in achieving its ROE targets. Maintain BUY and target price of RM6.50 (0.96x 2023 P/B, 9.9% 2023 ROE). Valuations remain attractive at -1SD to its historical mean P/B. The stock is also an excellent proxy to foreign inflows if interest in emerging markets was to gain traction.

WHAT'S NEW

- **Repayment assistance down to low single digits.** CIMB Group's loans under repayment assistance have remained stable at 3% of group gross loans. In terms of geographical breakdown of repayment assistance by key markets, Malaysia: 3%, Indonesia: 5%, Thailand: 4%, Singapore: 1%. In terms of delinquency rate on loans under repayment assistance, it remains relatively low at 6% of loans under repayment assistance (0.18% of group loans).
- **Delinquency rates edged up but remained well within expectations.** Management stated that loan delinquency rates continued to edge up in 4Q22 but the levels remained well within the level of pre-emptive provisions that the group has set aside. As such, management has retained its 2022 net credit cost guidance of 50-60bp.
- **Topping up pre-emptive provisions in 4Q22.** Net credit cost is expected to rise sequentially in 4Q22 on the back of further top up in management overlays, specific provisions for steel accounts in Indonesia and certain commercial loan accounts in Malaysia. However, this has already been factored into our 50bp 2022 net credit cost assumption where we expect 4Q22 net credit cost to rise to sequentially to around 75bp from 49bp in 3Q22. Moving into 2023, we have pencilled in a relatively flattish net credit cost assumption of 49bp which is still higher than its pre-COVID-19 average of 44bp as we remain conservative on the potential impact of rising interest rates on loan delinquencies.
- **Provision buffers sufficient to withstand impact of higher rates and slowing growth.** Management stated that it recently conducted a stress test against a backdrop of a mild recession and the rising interest rate environment. Even under such a scenario, it opines that overall profitability of the group should not decline significantly given the healthy stock of pre-emptive provisions having been set aside. The group currently has RM2.7b in stock of pre-emptive provisions which is set to rise further in 4Q22.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net interest income	10,260	10,871	11,051	11,484	12,152
Non-interest income	4,033	3,955	4,253	4,514	4,810
Net profit (rep./act.)	1,194	4,648	5,331	6,423	7,220
Net profit (adj.)	1,194	4,295	5,331	6,423	7,220
EPS (sen)	12.3	42.8	51.3	60.6	66.9
PE (x)	47.1	13.5	11.3	9.5	8.6
P/B (x)	1.0	1.0	0.9	0.9	0.9
Dividend yield (%)	0.8	4.0	4.4	5.2	5.8
Net int margin (%)	2.4	2.5	2.5	2.5	2.5
Cost/income (%)	51.0	48.7	48.1	47.9	46.7
Loan loss cover (%)	91.7	100.3	93.1	105.8	147.2
Consensus net profit	-	-	5,366	6,360	6,823
UOBKH/Consensus (x)	-	-	0.99	1.01	1.06

Source: CIMB Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM5.72
Target Price	RM6.50
Upside	+13.6%

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):	61,004.4
Market cap (US\$m):	14,368.5
3-mth avg daily t'over (US\$m):	22.3
Price Performance (%)	

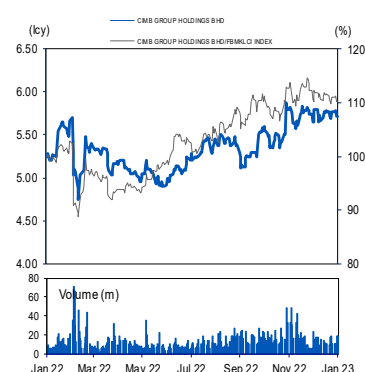
52-week high/low RM5.87/RM4.75

1mth	3mth	6mth	1yr	YTD
(0.3)	3.1	10.0	8.7	(1.4)

Major Shareholders

	%
Khazanah Nasional Berhad	24.1
Employees Provident Fund Board	13.9
-	-
FY22 NAV/Share (RM)	6.30
FY22 CAR Tier-1 (%)	15.51

PRICE CHART



Source: Bloomberg

ANALYST(S)

Keith Wee Teck Keong
+603 2147 1981
keithwee@uobkayhian.com

- **NIM remained stable in 4Q22.** Funding cost pressure continued to intensify in 4Q22 on the back of: a) higher deposit competition, b) re-pricing of time deposits following the series of interest rate hikes, and c) year-end competition for wholesale deposits. That said, management stated that NIM remained relatively stable sequentially in 4Q22 as strong NIM expansion in Singapore and Indonesia was sufficient to offset higher funding cost pressure.
- **But outlook for NIM neutral to slightly negative in 2023.** In 2023, management remains cautious of the NIM outlook which implies that the group's NIM may peak in 4Q22/1Q23. Management indicated that the strong NIM expansion from Singapore and Indonesia is likely to have peaked while the re-pricing of deposits across all its geographical markets would gain prominence throughout 2023, weighing down on NIM. In addition, management believes that even if deposit competition was to peak in 1Q23, the current high deposit rates could remain protracted for most of 2023, leading to elevated funding cost as deposits will continue to re-price upwards throughout 2023. We make no changes to our current NIM assumptions of +2bp for 2022 and -2bp for 2023. We expect a single 25bp overnight policy rate (OPR) hike in Mar 23 and for no further hike for the rest of 2023.
- **Dialling down loans growth to focus on asset quality and preserve NIM.** Given the concerns of a macroeconomic slowdown and intense deposit competition, management indicated that loans growth is not a key priority in 2023 and will only grow in segments that exhibit stronger asset quality profiles. That said, judging from the current loans approval pipeline, management has retained its 6-7% loans growth target for 2022 which is still well above our 5% assumption. As such, despite an expected slowdown in 2023, we make no changes to our current 2023 loans growth assumption of 5% for now given our more conservative assumptions.
- **Non-interest income to exhibit commendable growth.** Management expects a sequential pick up in non-interest income in 4Q22 largely underpinned by stronger fee income. Moving into 2023, management expects an improved non-interest income outlook driven by improved trading income as interest rates cycle peaks and there is continued growth momentum on transactional fee income. As such, we are expecting the group to register a commendable high single-digit growth in non-interest income in 2023.
- **Opex to be slightly under pressure but remains manageable.** Management expects opex growth to be higher in 2023 vs 2022 given the ongoing inflationary pressure. However, given the various cost take out, we believe this would help to partially offset the higher cost pressure in 2023. All in all, we have pencilled in a 6% opex growth for 2023 vs 5% in 2022. Management stated that the group remains on track to improve its cost to income ratio by 1ppt by 2024. As such, despite the guidance for higher cost pressure in 2023 vs 2022, we have pencilled in a relatively stable cost to income ratio assumption trend for 2023 vs 2022 at 48%.

EARNINGS REVISION/RISK

- No changes.

VALUATIONS AND RECOMMENDATIONS

- **Maintain BUY and target price of RM6.50 (0.96x 2023F P/B, 9.9% 2023 ROE).** The stock is trading at an attractive 0.85x 2023 P/B which is 1SD below its historical mean P/B. The stock could also be viewed as an excellent proxy to foreign inflows if interest in emerging markets were to gain traction over the course of 2023.

KEY ASSUMPTIONS

(%)	2022F	2023F	2024F
Loan Growth	5.0	5.0	6.0
Credit Cost (bp)	50.0	49.0	46.0
ROE	8.7	9.9	10.4

Source: UOB Kay Hian

MANAGEMENT 2022 GUIDANCE

ROE (%)	8.0-9.0
Credit Cost (bp)	50.0-60.0
Loans growth (%)	6.0-7.0
Cost to income ratio (%)	>49.0

Source: CIMB Group

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<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 %.

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Interest income	16,093	19,096	19,848	21,537
Interest expense	(5,221)	(8,045)	(8,364)	(9,385)
Net interest income	10,871	11,051	11,484	12,152
Fees & commissions	2,093	2,282	2,350	2,421
Other income	1,861	1,971	2,163	2,390
Non-interest income	3,955	4,253	4,514	4,810
Income from islamic banking	3,533	4,240	4,791	5,414
Total income	18,360	19,544	20,789	22,376
Staff costs	(5,428)	(5,858)	(6,138)	(6,578)
Other operating expense	(3,509)	(3,538)	(3,818)	(3,871)
Pre-provision profit	9,423	10,148	10,833	11,927
Loan loss provision	(2,614)	(1,985)	(2,042)	(2,032)
Other provisions	(544)	(350)	(350)	(399)
Associated companies	68	69	71	72
Other non-operating income	0	0	0	0
Pre-tax profit	6,333	7,883	8,511	9,568
Tax	(1,588)	(2,444)	(1,958)	(2,201)
Minorities	(97)	(109)	(131)	(147)
Net profit	4,648	5,331	6,423	7,220
Net profit (adj.)	4,295	5,331	6,423	7,220

CASH FLOW

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Capital Adequacy				
Tier-1 CAR	14.2	15.6	16.3	17.0
Total CAR	18.0	20.4	21.1	21.8
Total assets/equity (x)	10.5	10.4	10.5	10.6
Tangible assets/tangible common	12.1	11.8	11.8	11.9
Asset Quality				
NPL ratio	3.5	4.1	3.9	3.0
Loan loss coverage	100.3	93.1	105.8	147.2
Loan loss reserve/gross loans	3.5	3.9	4.2	4.4
Increase in NPLs	2.0	23.7	(0.2)	(19.7)
Credit cost (bp)	71.7	50.0	49.0	46.0
Liquidity				
Loan/deposit ratio	84.3	84.4	84.1	84.7
Liquid assets/short-term liabilities	5.3	7.1	7.0	7.0
Liquid assets/total assets	4.0	5.2	5.1	4.9

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Cash with central bank	4,676	13,892	14,586	15,462
Govt treasury bills & securities	15,296	15,602	15,914	16,232
Interbank loans	4,614	5,034	5,492	5,991
Customer loans	364,685	381,601	399,404	422,377
Investment securities	141,432	158,725	178,015	199,533
Derivative receivables	11,990	13,428	15,040	16,845
Associates & JVs	2,952	3,100	3,255	3,417
Fixed assets (incl. prop.)	2,749	2,639	2,527	2,413
Other assets	73,514	70,719	74,098	79,302
Total assets	621,907	664,739	708,331	761,572
Interbank deposits	30,702	32,682	34,801	37,068
Customer deposits	432,845	452,323	474,939	498,686
Derivative payables	40,080	41,792	43,578	45,441
Debt equivalents	23,508	23,508	23,508	23,508
Other liabilities	34,664	49,335	62,729	83,899
Total liabilities	561,798	599,640	639,555	688,602
Shareholders' funds	59,063	63,946	67,491	71,537
Minority interest - accumulated	1,045	1,154	1,285	1,433
Total equity & liabilities	621,907	664,739	708,331	761,572

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Growth				
Net interest income, yoy chg	6.0	1.7	3.9	5.8
Fees & commissions, yoy chg	18.4	9.0	3.0	3.0
Pre-provision profit, yoy chg	11.7	7.7	6.7	10.1
Net profit, yoy chg	289.2	14.7	20.5	12.4
Net profit (adj.), yoy chg	259.6	24.1	20.5	12.4
Customer loans, yoy chg	3.0	4.6	4.7	5.8
Customer deposits, yoy chg	6.7	4.5	5.0	5.0
Profitability				
Net interest margin	2.5	2.5	2.5	2.5
Cost/income ratio	48.7	48.1	47.9	46.7
Adjusted ROA	0.7	0.8	0.9	1.0
Reported ROE	8.1	8.7	9.9	10.4
Adjusted ROE	7.5	8.7	9.9	10.4
Valuation				
P/BV (x)	1.0	0.9	0.9	0.9
P/NTA (x)	1.1	1.1	1.0	1.0
Adjusted P/E (x)	13.5	11.3	9.5	8.6
Dividend Yield	4.0	4.4	5.2	5.8
Payout ratio	49.4	50.0	50.0	50.0

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W