

HLIB Research

PP 9484/12/2012 (031413)

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HOLD (Maintain)

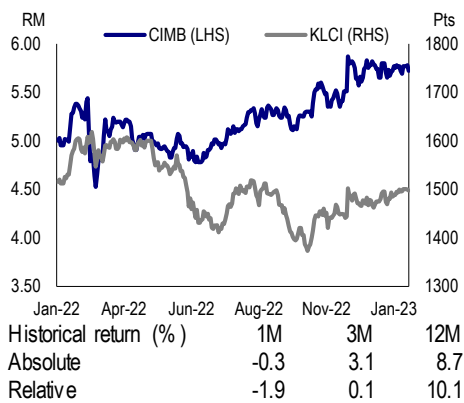
Target Price: RM5.85
Previously: RM5.85
Current Price: RM5.72

Capital upside	2.3%
Dividend yield	5.0%
Expected total return	7.3%

Sector coverage: Banking

Company description: CIMB is the second largest banking group (by assets) and it has an extensive regional footprint in ASEAN (like Indonesia, Thailand, and Singapore).

Share price



Stock information

Bloomberg ticker	CIMB MK
Bursa code	1023
Issued shares (m)	10,665
Market capitalisation (RM m)	61,004
3-mth average volume ('000)	16,781
SC Shariah compliant	No
F4GBM Index member	Yes
ESG rating	★★★★

Major shareholders

Khazanah Nasional	24.1%
Amanah Saham Nasional	13.5%
Employees Provident Fund	12.9%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI – core	4,648.3	5,482.7	6,269.1
EPS – core (sen)	46.4	52.4	57.2
P/E (x)	12.3	10.9	10.0

CIMB Group

On track to meet FY22 guidance

Again, CIMB sounded cautiously optimistic and core operational trends in 4Q22 are performing to expectations. Hence, our FY22-24 forecasts were unchanged. In the upcoming quarterly results, we will likely observe NIM expansion, steady loans and better NOII growth, on sequential basis. However, higher NCC would limit financial performance. Overall, we still believe CIMB's risk-reward profile is balanced, since share price has performed strongly over the past one year and there are no new positive catalysts to drive it significantly higher. Retain HOLD and GGM-TP of RM5.85, based on 0.92x FY23 P/B.

Yesterday, CIMB held a pre-closed period conference call. Discussions were around its broad operational trends in 4Q22. We summarize the key-takeaways in this report.

4Q22 NCC to rise QoQ. According to management, asset quality trend is performing to their expectations. We understand delinquency in 4Q22 climbed sequentially at the consumer segment (staying just a tad lower vs pre-pandemic level) but the non-retail business did not experienced any significant movement. However, as guided, we can expect net credit cost (NCC) to rise QoQ given: (i) additional management overlays, (ii) higher loss allowances for the Malaysia non-retail portfolio, and (iii) provision top-up for a legacy Indonesian steel company. Overall, FY22 NCC is still expected to land in between 50-60bp (9M22: 43bp). Besides, CIMB's intention is to retain its loan loss coverage (LLC) level at 90-100% (9M22: 99.9%).

Sequential top-line growth in 4Q22. Cost of funding has risen in 4Q22 vs 3Q22, no thanks to: (i) fierce deposits rivalry, (ii) repricing of matured deposits, and (iii) seasonal year end competition in the wholesale money market space. Despite these drags, net interest margin (NIM) is seen to expand QoQ given a larger offset from: (i) favourable lag in the interest bearing asset-liability repricing at Singapore along with (ii) excess liquidity deployment and positive effective interest rate (EIR) adjustment at Indonesia. CIMB reckons its NIM may have potentially peaked in 4Q22. Separately, we gathered that loans growth is still chugging along nicely (9M22: +9.0% YoY). As for non-interest income (NOII), it is expected to grow QoQ, on the back of better wholesale business related fees, trading and forex performance.

Other findings. Despite intense deposit competition, CIMB is of the view that there is no liquidity shortness in the market. Besides, management intends to stay away from irrational price rivalry and employ a deposit-led strategy, which would not aggressively pursue loans growth at the expense of higher funding cost. That said, CIMB sees two more overnight policy rate (OPR) hikes in 2023. As for the percentage of borrowers who have graduated from the rescheduling and restructuring program but are missing payments, it remains largely unchanged at 6%. Lastly, on cost front, it is expected to increase quicker in 4Q22 on the back of bonus expense adjustment and new projects going live (9M22 cost-to-income ratio: 46.1%).

Forecast. Unchanged since there were no significant updates from the briefing. Also, underlying operational trends in 4Q22 are performing according to expectations.

Retain HOLD and GGM-TP of RM5.85, based on 0.92x FY23 P/B with assumptions of 9.4% ROE, 9.9% COE, and 3.0% LTG. This is largely in line to its 5-year and sector mean of 0.85-0.89x; we feel the valuation is fair given its ROE output is similar to pre-pandemic level and industry average. Overall, we still believe that CIMB's risk-reward profile is balanced, considering share price has performed strongly over the past one year and there are no new positive catalysts to drive it significantly higher.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash & ST funds	49,958.9	56,168.7	35,863.1	26,717.5	25,378.2
Invest. securities	146,876.0	156,728.2	164,564.6	172,792.8	181,432.5
Net loans	353,916.0	364,684.8	394,638.9	418,750.0	435,635.0
Intangible assets	9,745.0	8,301.6	8,209.5	8,109.3	8,001.0
Other assets	41,859.1	36,023.8	45,211.1	45,957.9	46,699.0
Assets	602,354.9	621,907.1	648,487.1	672,327.4	697,145.5
Cust. & bank deposits	437,520.8	463,547.2	485,189.4	503,368.9	522,275.6
Debt securities	72,162.3	70,690.5	70,690.5	70,690.5	70,690.5
Other liabilities	35,497.7	27,560.6	27,560.6	27,560.6	27,560.6
Liabilities	545,180.8	561,798.3	583,440.6	601,620.1	620,526.8
Shareholder's equity	56,125.6	59,063.3	63,882.7	69,417.3	75,196.2
Minority interest	1,048.5	1,045.5	1,163.8	1,290.0	1,422.6
Equity	57,174.1	60,108.7	65,046.5	70,707.4	76,618.8

Financial Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Operational (%)					
Avg. lending yield	4.22	3.65	3.68	3.71	3.72
Avg. cost of funds	2.02	1.39	1.40	1.41	1.42
Net interest margin	2.34	2.36	2.38	2.40	2.41
Cost/ income	51.0	51.1	49.2	48.4	48.1
Profitability (%)					
ROE	2.67	8.07	8.92	9.41	9.10
ROA	0.26	0.76	0.86	0.95	0.96
Liquidity (%)					
Loan/ deposit	90.2	87.3	89.8	91.6	91.6
Asset quality (%)					
Gross impaired loans	3.56	3.52	3.54	3.56	3.58
Loan loss coverage	91.6	100.2	94.2	91.0	89.7
Net credit cost (bp)	145.3	70.3	45.1	42.6	40.9
Capital adequacy (%)					
CET 1 capital	13.2	14.2	14.0	14.1	14.3
Tier 1	14.5	15.1	14.8	14.9	15.0
Total capital	17.5	18.0	17.8	17.8	17.8

Income Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Net interest income	10,440.0	10,936.5	11,363.7	11,849.3	12,341.4
Islamic operations	3,123.3	3,533.5	3,906.8	4,027.6	4,157.6
Non-interest income	4,032.5	3,954.6	4,127.2	4,267.0	4,366.7
Total income	17,595.9	18,424.6	19,397.7	20,143.9	20,865.7
Overhead expenses	(8,976.8)	(9,418.9)	(9,541.3)	(9,742.5)	(10,031.4)
Loan loss provision	(5,342.2)	(2,613.6)	(1,772.6)	(1,791.5)	(1,804.3)
Others	(1,746.5)	(602.5)	(195.0)	(195.0)	(195.0)
Pre-tax profit	1,530.3	5,789.5	7,888.8	8,414.9	8,835.0
Taxation	(383.8)	(1,396.9)	(2,287.8)	(2,019.6)	(2,120.4)
Minority interest	47.9	(97.3)	(118.3)	(126.2)	(132.5)
Net profit	1,194.4	4,295.3	5,482.7	6,269.1	6,582.1
Exceptionals	309.2	353.0	-	-	-
Core net profit	1,503.6	4,648.3	5,482.7	6,269.1	6,582.1
HLIB/ Consensus			102%	99%	96%

Valuation Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	15.2	46.4	52.4	57.2	57.3
P/E (x)	37.7	12.3	10.9	10.0	10.0
BVPS (RM)	5.66	5.89	6.11	6.33	6.55
P/B (x)	1.01	0.97	0.94	0.90	0.87
DPS (sen)	4.8	23.0	26.0	28.4	28.5
Dividend yield (%)	0.8	4.0	4.5	5.0	5.0
Payout ratio (%)	31.7	50.1	50.0	50.0	50.0

Growth

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Income statement (%)					
Net interest income	3.5	4.8	3.9	4.3	4.2
Total income	0.3	4.7	5.3	3.8	3.6
Pre-tax profit	(74.4)	278.3	36.3	6.7	5.0
Net profit	(73.8)	259.6	27.6	14.3	5.0
Core net profit	(68.4)	209.1	18.0	14.3	5.0
Balance sheet (%)					
Gross loans	(1.0)	3.3	8.0	6.0	4.0
Customer deposits	2.5	6.7	5.0	4.0	4.0

ESG Snapshot

F4GBM Index member	: Yes
FTSE Russell ESG rating	: ★ ★ ★ ★
MSCI ESG rating	: AA

The goal of this section is to give an overview of CIMB's ESG trends and developments. Information presented here are from financial year FY21 and will only be updated when new data are available. Overall, we find the bank has no glaring ESG issues as most indicators met expectations and for those below sector's mean, CIMB is making efforts to improve.

Environmental (E) indicators

- Targeting to dish out RM60bn in sustainable finance by 2024 (1H22: RM30bn / 2021: RM25.9bn).
- Looking to achieve Carbon Neutral and Net Zero Carbon Equivalent positions by 2030 and 2050 respectively (1H22: 22% lower against 2019 baseline).
- High risk ESG financing (which consist of Agriculture, Mining & Quarrying sectors) accounted for 3.9% of total loans (vs 2020: 4.7% ; above sector's 2.6%).
- Sustainable financing made up 4.2% of total loans (vs 2020: 0.4% ; above sector's 2.5%).
- GHG emission intensity stood at 3.7 tCO₂e/RM'm (vs 2020: 4.9 tCO₂e/RM'm; above sector's 2.9 tCO₂e/RM'm).
- Intensity of energy consumption was at 6.5 MWh/RM'm (vs 2020: 7.3 MWh/RM'm; below sector's 7.5 MWh/RM'm).
- Reported water consumption intensity per revenue of 28.2 m³/RM'm (vs 2020: 27.9 m³/RM'm; above sector's 20.0 m³/RM'm).

Comments: CIMB is well on track to meet its environmental KPIs. Notably, the aspiration to hit RM60bn sustainable financing by 2024 is an upward revision from its earlier target of RM30bn. Although the % of high risk ESG financing and GHG emission intensity were above sector averages, this is not overly concerning since both displayed improvement from 2020's level. However, CIMB needs to manage its water consumption better as it is 40% higher vs peers and has not shown any declining trend so far.

Social (S) indicators

- Has a talent retention rate of 86% (vs 2020: 86% ; below sector's 90%).
- Composition of female Board of Directors stood at 30% (vs 2020: 30% ; in line with sector's 29%).
- Females accounted for 44% of senior management team (vs 2020: 43% ; above sector's 35%).
- The average training hours per employee was at 73 hours (vs 2020: 89 hours; above sector's 70 hours).
- Percentage of learning & development opex to total income stood at 0.4% (vs 2020: 0.5% ; in line with sector's 0.3%).
- Community investment & zakat contribution was 0.8% of net profit (vs 2020: 2.7% ; below sector's 1.1%).

Comments: Despite below average talent retention rate, we are comforted that CIMB was still able to attract young talents, looking at its top quartile GradMalaysia ranking since 2008. Otherwise, it has strong gender equality focus, from our observation. That said, we feel CIMB needs to step up a little more on its community initiatives.

Governance (G) indicators

- Board size of 10 directors (vs 2020: 10 directors; in line with sector's 10 directors) where 70% were independent (vs 2020: 70%; in line with sector's 72%) with an average tenure of 3.8 years (vs 2020: 3.2 years; below sector's 4.6 years). Meeting attendance was 98% (vs 2020: 98% ; in line with sector's 99%).
- Independent directors form 100% / 60% / 83% of audit / risk / nomination & remuneration committee (vs 2020: 100% / 71% / 86% ; sector: 96% / 80% / 79%).
- Has a CEO pay ratio of 31x vs sector average of 66x (2020: 20x).
- The percentage of executive & non-executive directors pay to total income stood at 0.1% (vs 2020: 0.1% ; below sector's 0.3%).

Comments: There were no issue on board size, independence, and their tenure of service. However, the composition of independent directors for its risk committee needs a relook. Separately, compensation package for CEO, executive & non-executive directors appeared to be competitive.

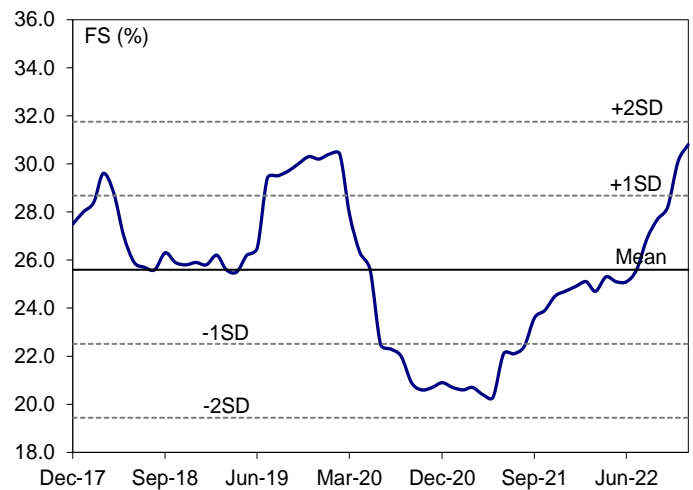
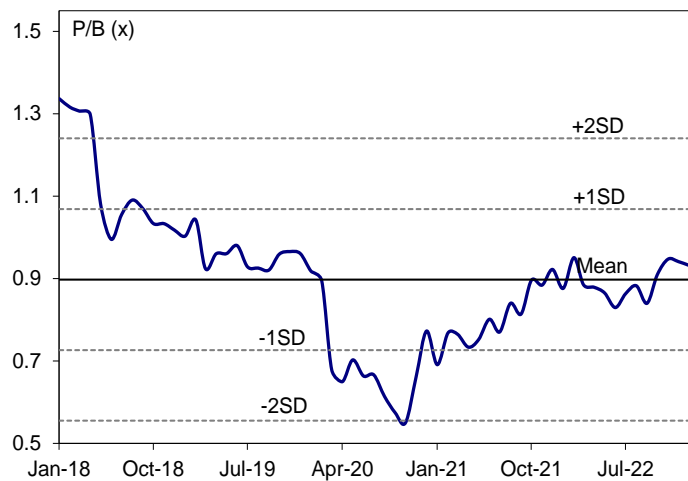
Figure #1 Peers comparison

Stock	Mkt Cap (RM m)	Price (RM)	Target (RM)	Rating	FYE	P/E (x)		P/B (x)		Yield (%)	
						FY22	FY23	FY22	FY23	FY22	FY23
AFFIN	4,752	2.09	2.20	HOLD	DEC	15.4	8.3	0.4	0.4	14.6	6.2
ALLIANCE*	5,589	3.61	4.05	HOLD	MAR	8.2	7.9	0.8	0.8	6.1	6.4
AMMB*	13,502	4.08	4.20	HOLD	MAR	8.2	7.9	0.7	0.7	3.9	4.7
BIMB	5,388	2.50	3.00	BUY	DEC	10.8	8.7	0.8	0.7	3.7	4.6
CIMB	61,004	5.72	5.85	HOLD	DEC	10.9	10.0	0.9	0.9	4.5	5.0
MAYBANK	105,835	8.78	8.90	HOLD	DEC	12.5	11.5	1.2	1.1	6.7	6.9
PUBLIC BANK	83,078	4.28	4.80	HOLD	DEC	14.4	12.4	1.6	1.5	3.6	4.0
RHB BANK	24,295	5.72	6.60	BUY	DEC	8.8	7.5	0.8	0.8	5.9	7.0
HL BANK*	45,262	20.88	-	N.RATED	JUN	11.2	10.5	1.3	1.2	3.2	3.5
HL FINANCIAL*	21,714	18.96	-	N.RATED	JUN	7.8	7.3	0.8	0.7	3.1	3.3
SIMPLE AVERAGE						10.8	9.2	0.9	0.9	5.5	5.2

HLIB Research, Bloomberg

* refers to FY23 & FY24

Figure #2 5-year forward P/B band & foreign shareholding trend



HLIB Research, Bloomberg

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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