

27 January 2023

Financial Services | Banks

## CIMB (CIMB MK)

**Buy** (Maintained)

### Income Growth To Offset Cost Pressures; Stay BUY

Target Price (Return): MYR7.00 (22.4%)  
 Price (Market Cap): MYR5.72 (USD14,369m)  
 ESG score: 3.00 (out of 4)  
 Avg Daily Turnover (MYR/USD) 85.9m/19.2m

- **Maintain BUY and MYR7.00 TP, 22% upside with c. 5% FY23F yield.** At yesterday's sell-side analyst meeting, we gathered that while the outlook for operating income seems decent and asset quality looks stable yet opex and funding cost are also on the rise and would dampen earnings growth. Near-term, a sequentially weaker 4Q22 looks to be on the cards but appears to be expected. CIMB is a sector top pick as its risk-reward balance remains favourable: FY23F P/BV of 0.9x against ROE of 10%. Our TP is based on a GGM-derived intrinsic value of MYR6.98 (0% ESG premium/discount).

- **Look beyond a "noisy" 4Q.** CIMB's 4Q22 results are expected on 28 Feb. Our full-year net profit estimate of MYR5.1bn (-4% vs consensus) implies 4Q22 net profit of MYR990m (-30% QoQ/+16% YoY). CIMB guided yesterday to anticipate a sequential bump up in costs: i) Funding (deposit competition, partly seasonal), ii) opex (year-end accrued expenses, variable compensation), and iii) credit (higher overlays for Malaysia non-retail, Indonesia steel). Income was decent as asset yield continued to be repriced while non-II benefited from better fee and trading income. We suggest investors to look beyond the results and instead focus on the trajectory of deposit competition, asset quality, and operating income, among others.

- **Keeping an eye out for funding cost and opex ...** CIMB thinks funding cost could continue to see upward pressure due to a combination of changing deposit structure (eg switch from low cost CASA to higher cost fixed deposits, shorter term fixed deposit placements to benefit from rate hikes) and deposit competition, especially for longer tenor deposits. Flipside, the competitive landscape has not deteriorated further and more importantly, liquidity is still ample. Meanwhile, 2023F opex growth is guided to accelerate further with the rise due to broad-based cost inflation. More colour on how CIR is expected to shape will be provided at the results briefing. 9M22 CIR was 46% vs FY21 business-as-usual CIR of 49%.

- **... but overall the operating income looks decent.** Despite the competitive deposit landscape, CIMB did not appear overly concerned. Further overnight policy rate hikes in Malaysia (50bps expected in 1H23) coupled with pricing power and excess liquidity in Indonesia will help cushion some of the funding cost pressures. Management now sees a delay in the peak in NIM from the earlier expectation of 3Q22. Also, loan growth remains well supported by demand from consumer and commercial while fee, trading, and FX income should see improvement at the non-interest income side.

- **Room for equity risk premium to fall?** Asset quality looks stable despite the recent rate hikes by regional central banks. Delinquencies for consumer is currently below pre-COVID 19 levels although management believes this will slowly trend back to pre-pandemic levels in the coming quarters. CIMB has bulked up its loan loss coverage levels to c.100% and plans to keep it at 90-100%, up from an average of c.80% post-Global Financial Crisis .

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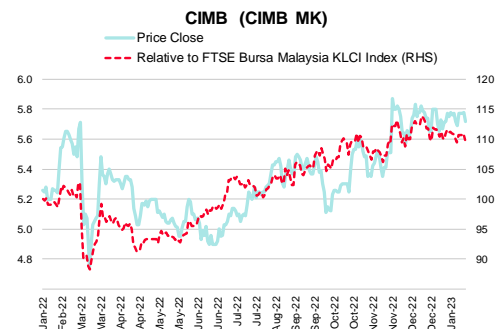


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.4)	(0.4)	3.1	10.0	8.7
Relative	(1.6)	(2.0)	0.1	7.6	9.9
52-wk Price low/high (MYR)	4.75 – 5.87				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Reported net profit (MYRm)	1,194	4,295	5,105	6,538	7,164
Net profit growth (%)	(73.8)	259.6	18.9	28.1	9.6
Recurring net profit (MYRm)	1,194	4,648	5,105	6,538	7,164
Recurring EPS (MYR)	0.12	0.46	0.49	0.61	0.65
BVPS (MYR)	5.64	5.76	5.87	6.30	6.80
DPS (MYR)	0.05	0.23	0.24	0.31	0.34
Recurring P/E (x)	47.52	12.33	11.58	9.40	8.74
P/B (x)	1.01	0.99	0.97	0.91	0.84
Dividend Yield (%)	0.9	4.0	4.2	5.4	5.9
Return on average equity (%)	2.1	7.5	8.4	10.0	10.0

Source: Company data, RHB

#### Overall ESG Score: 3.00 (out of 4)

##### E: GOOD

In 2019, it rolled out CIMB Group Sustainability Financing Policy that details the bank's expectations of clients in the palm oil, construction and real estate, and forestry sectors. CIMB launched its SME Renewable Energy Financing, Green Economy Programme by CIMB Islamic and green financing products for retail market. CIMB raised its sustainable finance target to MYR60bn.

##### S: GOOD

Embraces gender diversity with 56% of total workforce comprised of women, 47.5% in middle to top management and 22% of Board of Directors. Remains committed to having 30% women in the Board. Actively assists customers in financial difficulty. In late-2021, processing error related to a third-party remittance service led to some 11,800 CIMB customers receiving double credits. The bank made provisions of MYR281m for the double credits.

##### G: EXCELLENT

Board of Directors comprises six Independent Directors, two Non-Executive Directors and the Group CEO is an Executive Director.

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## Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	EPS	0.12	0.43	0.49	0.61	0.65
Financial Services	Recurring EPS	0.12	0.46	0.49	0.61	0.65
<b>CIMB</b>	DPS	0.05	0.23	0.24	0.31	0.34
CIMB MK	BVPS	5.64	5.76	5.87	6.30	6.80
Buy						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Recurring P/E (x)	47.52	12.33	11.58	9.40	8.74
	P/B (x)	1.0	1.0	1.0	0.9	0.8
	Dividend Yield (%)	0.9	4.0	4.2	5.4	5.9
	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Interest income	23,077	21,400	23,770	25,397	26,754
	Interest expense	(10,352)	(7,442)	(8,790)	(9,375)	(9,865)
	<b>Net interest income</b>	<b>12,725</b>	<b>13,958</b>	<b>14,979</b>	<b>16,022</b>	<b>16,889</b>
	Non interest income	4,464	5,555	5,146	4,634	5,015
	<b>Total operating income</b>	<b>17,189</b>	<b>19,513</b>	<b>20,125</b>	<b>20,656</b>	<b>21,904</b>
	Overheads	(8,977)	(9,419)	(9,152)	(9,491)	(9,932)
	<b>Pre-provision operating profit</b>	<b>8,212</b>	<b>10,094</b>	<b>10,973</b>	<b>11,165</b>	<b>11,972</b>
	Loan impairment allowances	(5,534)	(2,724)	(2,103)	(2,057)	(2,042)
	Other impairment allowances	(1,265)	(1,649)	(95)	(110)	(120)
	Income from associates	116	68	9	10	10
	<b>Pre-tax profit</b>	<b>1,530</b>	<b>5,789</b>	<b>8,784</b>	<b>9,008</b>	<b>9,820</b>
	Taxation	(384)	(1,397)	(3,514)	(2,297)	(2,475)
	Minority interests	48	(97)	(165)	(173)	(182)
	<b>Reported net profit</b>	<b>1,194</b>	<b>4,295</b>	<b>5,105</b>	<b>6,538</b>	<b>7,164</b>
	<b>Recurring net profit</b>	<b>1,194</b>	<b>4,648</b>	<b>5,105</b>	<b>6,538</b>	<b>7,164</b>
	<b>Profitability ratios</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Return on average assets (%)	0.2	0.7	0.8	0.9	1.0
	Return on average equity (%)	2.1	7.5	8.4	10.0	10.0
	Return on IEAs (%)	4.2	3.7	3.9	3.9	3.9
	Cost of funds (%)	2.1	1.4	1.6	1.7	1.7
	Net interest spread (%)	2.1	2.3	2.3	2.3	2.3
	Net interest margin (%)	2.3	2.4	2.5	2.5	2.5
	Non-interest income / total income (%)	26.0	28.5	25.6	22.4	22.9
	Cost to income ratio (%)	52.2	48.3	45.5	45.9	45.3
	Credit cost (bps)	151	73	53	48	46
	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total gross loans	365,851	378,008	411,814	436,529	458,380
	Other interest earning assets	196,835	212,897	213,000	226,196	236,406
	Total gross IEAs	562,686	590,905	624,814	662,725	694,785
	Total provisions	(11,935)	(13,323)	(14,812)	(16,659)	(18,498)
	Net loans to customers	353,916	364,685	397,002	419,870	439,881
	Total net IEAs	550,751	577,582	610,002	646,066	676,287
	Total non-IEAs	51,604	44,325	71,457	70,385	74,308
	Total assets	602,355	621,907	681,459	716,451	750,595
	Customer deposits	405,730	432,845	446,991	472,010	496,592
	Other interest-bearing liabilities	99,937	94,536	105,175	107,952	109,313
	Total IBLs	505,666	527,381	552,166	579,962	605,906
	Total non-IBLs	39,515	34,417	65,555	66,895	68,295
	Total liabilities	545,181	561,798	617,721	646,857	674,200
	Share capital	25,844	27,100	29,274	31,484	32,873
	Shareholders' equity	55,926	58,863	62,478	68,334	75,125
	Minority interests	1,048	1,045	1,060	1,060	1,070
	<b>Asset quality and capital</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Reported NPLs / gross cust loans (%)	3.6	3.5	3.5	3.4	3.3
	Total provisions / reported NPLs (%)	91.6	100.2	104.2	113.9	122.3
	CET-1 ratio (%)	13.2	14.2	13.3	13.7	14.6
	Tier-1 ratio (%)	14.5	15.1	14.1	14.5	15.3
	Total capital ratio (%)	17.5	18.0	16.8	17.0	17.6

Source: Company data, RHB

**Valuation and TP**

Our TP of MYR7.00 is unchanged and is based on an intrinsic value of MYR6.98 with a 0% ESG premium/discount applied. Its ESG score, based on RHB's in-house methodology, of 3.0 is in line with the country median.

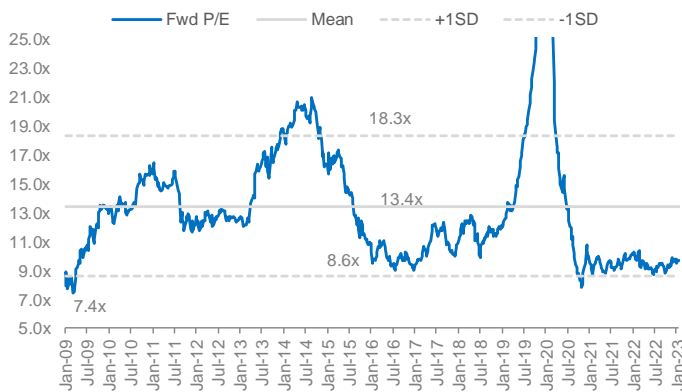
The intrinsic value is based on a GGM-derived P/BV of 1.1x, which is below the historical mean of 1.26x.

**Figure 1: CIMB – GGM valuation with ESG overlay**

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	9.5
Risk free rate (%)	4.6	COE (%)	8.9
Equity premium (%)	4.3	Long-term growth (g)	3.5
Beta (x)	1.0	Implied P/BV (x)	1.11
Cost of equity - CAPM (%)	8.9	BVPS – 12mth forward	MYR6.30
		Intrinsic value	MYR6.98
ESG premium/(discount) (%)	zero	ESG premium/(discount)	<b>MYR0.00</b>
		<b>TP (rounded)</b>	<b>MYR7.00</b>

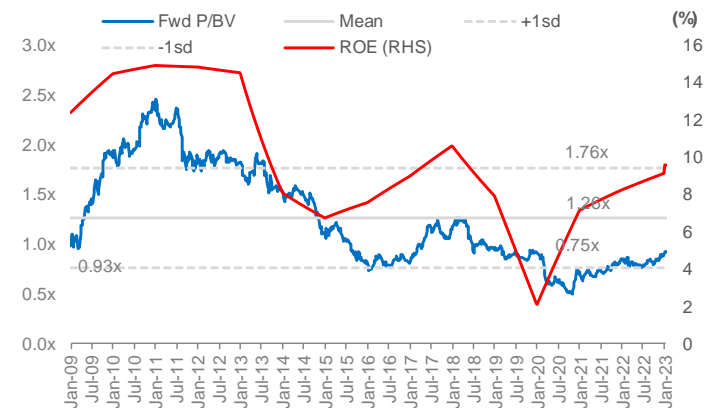
Source: Company data, RHB

**Figure 2: CIMB's 12-month forward consensus P/E**



Source: Bloomberg, RHB

**Figure 3: CIMB's 12-month forward consensus P/BV**



Source: Bloomberg, RHB

## Recommendation Chart

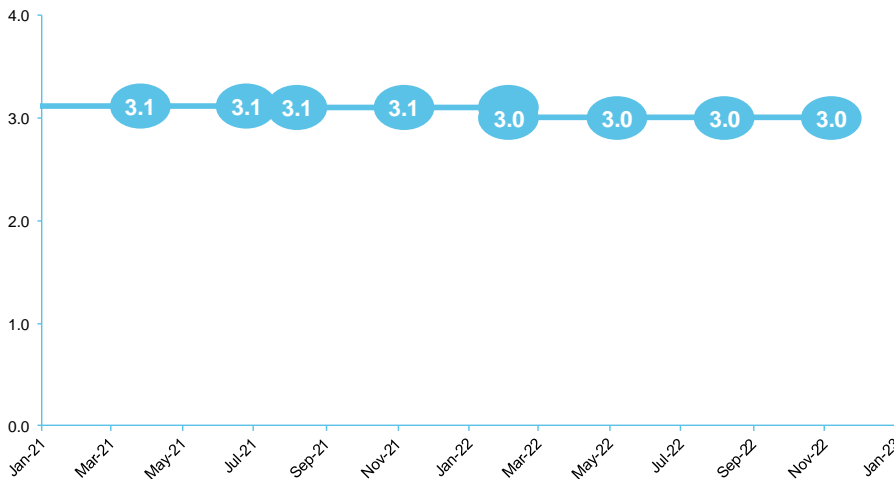


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-12-01	Buy	7.00	5.75
2022-08-31	Buy	6.50	5.37
2022-03-01	Buy	6.40	5.29
2021-12-01	Buy	6.30	5.03
2021-10-20	Buy	5.90	5.41
2021-08-31	Buy	5.70	4.91
2021-02-28	Buy	5.20	4.33
2020-12-16	Buy	5.10	4.50
2020-11-29	Neutral	3.90	3.83
2020-10-18	Neutral	3.30	3.05
2020-08-31	Neutral	3.50	3.30
2020-07-17	Neutral	3.90	3.61
2020-06-10	Neutral	4.20	4.05
2020-05-26	Sell	2.80	3.47
2020-04-28	Sell	3.00	3.41

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Not Rated:</b>	Stock is not within regular research coverage

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