

# CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

## 2QFY23 Preview: NOII offsetting NII Worries

### KEY INVESTMENT HIGHLIGHTS

- **Management's tone: Neutral**
- **Core themes: (a) NIM set to stabilise though recovery may be gradual, (b) NOII expected to pull weight in 2Q, (c) Asset quality remains stable**
- **Forecasts unchanged**
- **Maintain BUY | Revised TP of RM6.39 | based on a revised FY24F P/BV of 0.94x**

**Verdict: Risk-reward still skewed toward +ve, despite recent positive share repricing**

**Yays**

1. NOII uplift remains promising.
2. CIMB Niaga offers exposure to lucrative Indonesian market.
3. Asset quality seems stable.

**Nays**

**OKs**

1. NIMs seems to be stabilising, though recovery may be gradual.

**CIMB just had its pre-blackout season briefing.** Overall, the tone was rather neutral: Management has become a bit more negative on NIM outlook (it previously believed that it had troughed in 1QFY23), while reassuring that NOII drivers are intact and asset quality is stable. We believe there is a very small possibility that the Group might revise its FY23 NIM guidance downward.

### Here are some highlights:

**Group NIM to see very minor compression on a sequential quarter basis.** Management is guiding for further improvement in 2HFY23, though unlikely to return to the highs of 2HFY22.

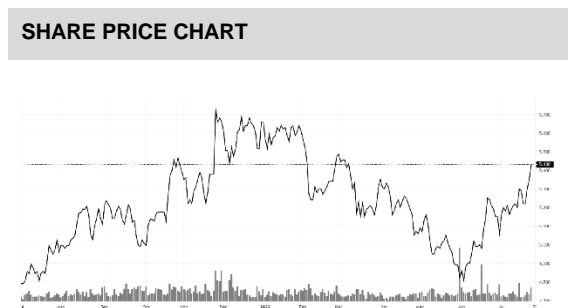
Zooming into geographical segments, **TH** should see some positive impact in 2QFY23 and should continue seeing improvement in subsequent quarters. **IDN** is expecting some margin compression in the quarter, but the Group has seen some improvement at the tail end of the quarter and is guiding for further COF easing in 2HFY23.

**MY** will continue seeing further compression in the quarter, though the delta of this has since reduced – it will also see some offset coming from May-23 OPR hike. **SG** has the most negative trajectory, with the repricing of deposit yields expected to keep NIMs moving in a negative trajectory in the next few quarters. Do note that despite the negative trajectory, SG's NIM is the healthiest among all regions. Also, SG is still flushed with liquidity – hence there is no need to compete aggressively for deposits.

## Maintain BUY

**Revised Target Price: RM6.39**  
(Previously RM5.92)

RETURN STATISTICS	
Price @ 25 July 2023 (RM)	5.43
Expected share price return (%)	+17.7
Expected dividend yield (%)	+6.2
<b>Expected total return (%)</b>	<b>+24.0</b>



Price performance (%)	Absolute	Relative
1 month	8.5	7.5
3 months	3.2	0.7
12 months	3.4	6.8

INVESTMENT STATISTICS			
FYE Dec	FY23F	FY24F	FY25F
<b>Core NP (RM m)</b>	<b>6,496</b>	<b>7,044</b>	<b>7,521</b>
CNP growth (%)	17	8	7
<b>Div yield (%)</b>	<b>5.7</b>	<b>6.2</b>	<b>6.6</b>
Gross DPS (sen)	31.2	33.8	36.1
<b>P/BV (x)</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>
BVPS (RM)	6.4	6.8	7.2
<b>ROE (%)</b>	<b>10.1</b>	<b>10.3</b>	<b>10.3</b>
<b>MIDF/Street CNP (%)</b>	<b>101</b>	<b>102</b>	<b>102</b>

KEY STATISTICS	
FBM KLCI	1,436.79
Issue shares (m)	10,474.0
Estimated free float (%)	42.0
Market Capitalisation (RM'm)	55,671.8
52-wk price range	RM4.8 - RM5.9
3-mth avg daily volume (m)	12.9
3-mth avg daily value (RM'm)	64.9
Top Shareholders (%)	
Khazanah Nasional Bhd	23.6
EPF Board	14.6
Amanah Saham Nasional Bhd	9.9

**Analyst**  
Samuel Woo  
samuel.woo@midf.com.my

**NOII outlook still skewed towards positive.** MY was sequentially stronger, driven by better treasury incomes. There should be some uplift from improved deal pipeline in 2HFY23. SG should also perform strongly, with the Group taking tactical interest rate swaps – effectively sacrificing NII for NOII. IDN did see better quarterly “Other income” via more NPL sales. This offset a more challenging outlook for trading and FX. The Group is still calibrating its approach towards NPL sales, to make it a less lumpy source of income. TH should see some challenges ahead, especially following an exceptional FY22.


**Loss of TnG monopoly not a big concern.** Firstly, the income derived from this segment is not material. Secondly, the Group is in the process of monetising the value of data obtained by the app – and is confident that this will be able to replace to foregone income source.

**GIL ratio expected to peak in 4Q.** Management reiterates that it will minimise overlay writeback. Asset quality upticks remain in line with management expectations, with pre-existing overlays deemed more than adequate.

**Loan growth momentum still intact.** This stems from chunky drawdowns on the wholesale side of overseas markets.

**Forecasts unchanged.** We make no alterations to our forecasts.

**Key downside risks.** (1) NIM recovery lacklustre, (2) Asset quality deteriorates worse than expected, (3) Loan growth weaker than expected.

**Maintain BUY call: Revised GGM-TP of RM 6.39 (from RM5.92).** The TP is based on a revised FY24F P/BV of 0.94x (previously 0.87x) to reflect improved investor sentiment on the banking sector. CIMB remains one of our top picks for the sector, given its exposure to the lucrative Indonesian market and strong NOII outlook. **(GGM assumptions: FY24F ROE of 10.3%, LTG of 3.5% & COE of 10.7%)** 

## FINANCIAL SUMMARY

## INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	16,096	18,646	19,809	21,546	21,929
Interest expense	(5,221)	(7,016)	(7,980)	(9,120)	(9,120)
<b>Net interest income</b>	<b>10,874</b>	<b>11,630</b>	<b>11,829</b>	<b>12,426</b>	<b>12,809</b>
Islamic banking inc.	3,533	4,000	3,573	3,670	3,783
Other operating inc.	5,105	4,208	5,021	5,882	6,597
<b>Net income</b>	<b>19,513</b>	<b>19,838</b>	<b>20,423</b>	<b>21,978</b>	<b>23,189</b>
OPEX	(9,419)	(9,346)	(9,599)	(10,220)	(10,551)
<b>PPOP</b>	<b>10,094</b>	<b>10,492</b>	<b>10,824</b>	<b>11,758</b>	<b>12,638</b>
Loan allowances	(2,614)	(1,953)	(1,878)	(1,962)	(2,040)
Other allowances	(1,759)	(209)	(200)	(296)	(451)
JV & Associates	68	40	111	121	129
<b>PBT</b>	<b>5,789</b>	<b>8,371</b>	<b>8,857</b>	<b>9,621</b>	<b>10,276</b>
Tax & zakat	(1,397)	(2,778)	(2,214)	(2,405)	(2,569)
NCI	(97)	(153)	(166)	(180)	(193)
<b>Reported NP</b>	<b>4,295</b>	<b>5,440</b>	<b>6,477</b>	<b>7,035</b>	<b>7,514</b>
<b>Core NP</b>	<b>4,648</b>	<b>5,542</b>	<b>6,496</b>	<b>7,044</b>	<b>7,521</b>
Total NII	13,958	15,158	14,973	15,729	16,214
Total NOII	5,555	4,680	5,450	6,249	6,975

## BALANCE SHEET

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash & ST funds	50,283	47,105	46,784	47,482	48,180
Investment securities	156,728	156,410	158,519	159,008	159,728
Net loans	364,685	394,557	413,097	430,132	447,030
Other IEAs	5,885	9,751	11,214	12,560	14,067
Non-IEAs	44,325	58,897	61,432	67,504	73,723
<b>Total assets</b>	<b>621,907</b>	<b>666,721</b>	<b>691,047</b>	<b>716,685</b>	<b>742,728</b>
Customer deposits	422,418	432,950	454,597	473,236	492,165
Other IBLs	104,963	115,648	114,855	115,581	116,629
Non-IBLs	34,417	54,340	53,749	55,407	57,232
<b>Total liabilities</b>	<b>561,798</b>	<b>602,937</b>	<b>623,201</b>	<b>644,225</b>	<b>666,026</b>
Share capital	27,100	29,095	29,095	29,095	29,095
Reserves	31,764	33,397	37,290	41,819	45,981
<b>Shareholders' funds</b>	<b>58,863</b>	<b>62,491</b>	<b>66,384</b>	<b>70,913</b>	<b>75,076</b>
Perpetual pref. shares	200	200	200	200	200
NCI	1,045	1,093	1,261	1,347	1,426
<b>Total equity</b>	<b>60,109</b>	<b>63,784</b>	<b>67,846</b>	<b>72,461</b>	<b>76,702</b>
<b>Total L&amp;E</b>	<b>621,907</b>	<b>666,721</b>	<b>691,047</b>	<b>716,685</b>	<b>742,728</b>
Total IEAs	577,582	607,824	629,614	649,181	669,005
Total IBLs	527,381	548,598	569,452	588,817	608,794
Gross loans	378,033	407,057	427,410	444,506	462,287
CASA	186,052	182,292	186,385	179,830	177,180

## FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
<b>Interest (%)</b>					
NIM	2.47	2.56	2.42	2.46	2.46
Return on IEAs	2.85	3.15	3.20	3.37	3.33
Cost of funds	1.01	1.30	1.43	1.57	1.52
Net interest spread	1.84	1.84	1.77	1.79	1.80
<b>Profitability (%)</b>					
<b>ROE</b>	<b>8.1</b>	<b>9.1</b>	<b>10.1</b>	<b>10.3</b>	<b>10.3</b>
ROA	0.8	0.9	1.0	1.0	1.0
NOII/Net income	28.5	23.6	26.7	28.4	30.1
Effective tax rate	24.1	33.2	25.0	25.0	25.0
Cost/Income	48.3	47.1	47.0	46.5	45.5
<b>Liquidity (%)</b>					
Loan/Deposit	86.3	91.1	90.9	90.9	90.8
CASA ratio	44.0	42.1	41.0	38.0	36.0
<b>Asset Quality (%)</b>					
GIL ratio	3.52	3.27	3.30	3.14	3.12
LLC ratio	100	93	100	100	100
LLC (w. reserves)	101	96	112	113	112
Net CC (bps)	70	50	45	45	45
<b>Capital (%)</b>					
CET 1	14.2	14.5	14.7	14.3	14.0
Tier 1 capital	15.1	15.4	15.6	15.1	14.7
Total capital	18.0	18.5	18.8	18.3	17.9
<b>Growth (%)</b>					
Total NII	9.7	8.6	-1.2	5.1	3.1
Total NOII	30.3	-15.8	16.5	14.7	11.6
Net income	14.9	1.7	3.0	7.6	5.5
OPEX	7.3	-0.8	2.7	6.5	3.2
Core NP	289.3	19.2	17.2	8.4	6.8
<b>Valuation metrics</b>					
Core EPS (sen)	44.6	53.2	62.3	67.6	72.1
Gross DPS (sen)	23.0	26.0	31.2	33.8	36.1
Div payout (%)	54	50	50	50	50
BVPS (RM)	5.6	6.0	6.4	6.8	7.2
Core P/E (x)	12.2	10.2	8.7	8.0	7.5
<b>Div yield (%)</b>	<b>4.2</b>	<b>4.8</b>	<b>5.7</b>	<b>6.2</b>	<b>6.6</b>
P/BV (x)	1.0	0.9	0.9	0.8	0.8

Source: CIMB, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology