

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

2QFY23 Results: Several Positive Revisions of Guidance

Maintain BUY
Revised Target Price: RM6.43
 (Previously RM6.39)

KEY INVESTMENT HIGHLIGHTS

- 6MFY23's Core NP of RM3,418m was *Within/Within* our/*street* forecasts: **53%/53%** of full-year forecasts
- Management's tone: **Optimistic for 2HFY23**
- Core themes: (a) **+ve guidance revisions**, (b) **Solid balance sheet growth from overseas segments**, (c) **Tougher 2H for OPEX**
- Forecasts revised: **FY23F/24F/25F Core NP adjusted by +0.2%/+0.4%/+0.4%**
- Maintain BUY | Revised TP of RM6.43 | based on a revised FY24F P/BV of 0.95x (formerly 0.94x)**

RETURN STATISTICS

Price @ 30 August 2023 (RM)	5.63
Expected share price return (%)	+14.3
Expected dividend yield (%)	+6.0
Expected total return (%)	+20.3

Verdict: Still our top pick for its solid overseas contributions.

Yays	<ol style="list-style-type: none"> CIMB continues to post impressive balance sheet growth figures via its overseas contributions. Generally good cost control – OPEX is slated to only exhibit mid-single-digit growth on a sequential year basis.
Nays	<ol style="list-style-type: none"> NIM guidance revised downwards but trajectory should improve in 2H. 2H OPEX could be tougher, thanks to collective agreement.
OKs	<ol style="list-style-type: none"> NOII, while having staged an impressive recovery, is largely dependent on NPL sales, which may not be consistent. While asset quality is still weakest among peers, CIMB seems to be keeping its NCC at acceptable levels.

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.7	2.5
3 months	11.7	11.7
12 months	4.6	8.1

6MFY23's Core net profit (NP) of RM3,418m up by 26%yoy. Apart from NII and OPEX, there was good improvement in all aspects (even OPEX is a muted +4%yoy higher).

2QFY23's Core NP of RM1,773m up by 8%qoq. This was driven by stronger NII contributions and NOII, while OPEX uptick was relatively muted at +3%qoq. Total provisions were flattish. Interestingly, tax expenses seem to be much higher this quarter – something we've seen in other banks as well – that we believe could be from additional provision allocation or MTM gains.

Loan growth rose by a phenomenal +3.3%qoq (bringing the YTD to 4.9%), while deposits rose by +3.8%qoq. In both cases, overseas contributions offset weaker local growth.

Have a look at:

Positive revisions to guidance (and one negative). CIMB has upgraded its dividend payout, loan growth and NCC guidance. We are pleasantly surprised with the NCC revision, though we felt that the original loan growth targets were too lenient.

NIM guidance, as with its peers, has been revised downward (though NIM should still travel in a positive trajectory for 2HFY23) – with MY to perform worse than initially expected and SG to face a tough 2H (after an especially strong 1H).

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	6,509	7,071	7,549
CNP growth (%)	17	9	7
Div yield (%)	6.1	6.0	6.4
Gross DPS (sen)	34.3	33.9	36.2
P/BV (x)	0.9	0.8	0.8
BVPS (RM)	6.3	6.8	7.2
ROE (%)	10.1	10.3	10.4
MIDF/Street CNP (%)	102	102	102

KEY STATISTICS

FBM KLCI	1,451.94
Issue shares (m)	10,474.0
Estimated free float (%)	41.0
Market Capitalisation (RM'm)	60,257.8
52-wk price range	RM4.8 - RM5.9
3-mth avg daily volume (m)	13.4
3-mth avg daily value (RM'm)	69.5
Top Shareholders (%)	
Khazanah Nasional Bhd	23.6
EPF Board	15.6
Amanah Saham Nasional Bhd	9.9

Analyst

 Samuel Woo
 samuel.woo@midf.com.my

ROE journey and mid-term plans. With the brunt of structured cost takeout and loanbook restructuring behind, CIMB will now be looking to convert its Thai and Niaga NPL sales into a more reliable source of quarterly income, as well as optimise its NCC and LLC by working on bringing down its GIL to more manageable levels. As mentioned previously it will be looking to turn around its CIMB Digital Assets contribution.

Recall FY24's target of achieving 11.5-12.5% ROE: Management has alluded to the major downside risk in achieving it is local deposit competition. Interestingly enough, CIMB believes that it has not found the source of deposit competition: Whether it is structural, a liquidity issue, irrational market behaviour or something else entirely.

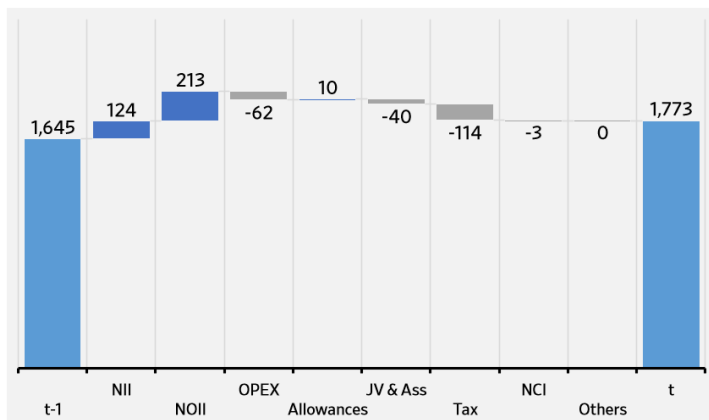
Forecasts revised: FY23F/24F/25F Core NP adjusted by +0.2%/+0.4%/+0.4%. Very minor changes to reflect slightly higher loan growth target for FY23F.

Key downside risks. (1) Lacklustre NIM recovery, (2) Higher-than-expected credit costs, (3) Poor cost control.

Maintain BUY call: Revised GGM-TP of RM 6.43 (from RM6.39). The TP is based on a revised FY24F P/BV of 0.95x (formerly 0.94x), to reflect altered earnings prospects and ROE-based valuations. **(GGM assumptions: FY24F ROE of 10.3%, LTG of 3.5% & COE of 10.7%)**

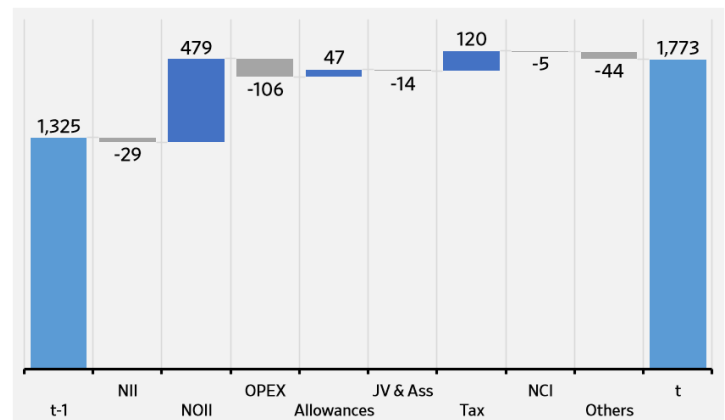


Fig 1: QoQ P/L walk (Quarterly results)



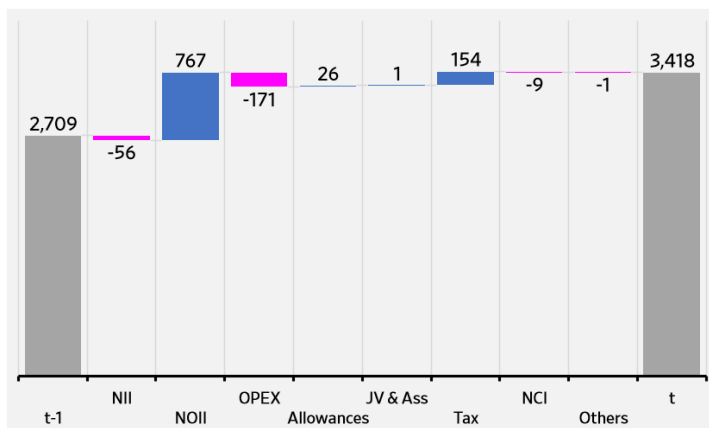
Source: CIMB, MIDFR

Fig 2: YoY P/L walk (Quarterly results)



Source: CIMB, MIDFR

Fig 3: YoY P/L walk (Cumulative results)



Source: CIMB, MIDFR

Fig 4: Quarterly results

FYE Dec (RM m)	2Q FY23	1Q FY23	2Q FY22	Yoy (%)	Qoq (%)	1H FY23	1H FY22	Yoy (%)
Net interest inc.	2,756	2,714	2,822	-2	2	5,470	5,542	-1
Islamic banking inc.	1,061	989	954	11	7	2,051	1,902	8
Non-interest inc.	1,516	1,295	1,108	37	17	2,811	2,177	29
Net income	5,334	4,997	4,884	9	7	10,331	9,620	7
OPEX	(2,405)	(2,344)	(2,300)	5	3	(4,749)	(4,577)	4
PPOP	2,929	2,654	2,585	13	10	5,583	5,043	11
Loan provisions	(558)	(306)	(455)	23	82	(864)	(2,696)	-68
Other provisions	123	(139)	(26)	<-500	-189	(16)	(163)	-90
Others	-	-	-	n.m.	n.m.	-	0	n.m.
JV & Associates	(12)	27	2	n.m.	n.m.	15	14	n.m.
PBT	2,482	2,236	2,105	18	11	4,718	4,153	14
Tax	(661)	(547)	(781)	-15	21	(1,207)	(1,361)	-11
NCI	(48)	(45)	(43)	11	7	(92)	(84)	11
Reported NP	1,773	1,645	1,281	38	8	3,418	2,708	26
Core NP	1,773	1,645	1,325	34	8	3,418	2,709	26
Total NII	3,646	3,522	3,675	-1	4	7,168	7,224	-1
Total NOII	1,688	1,475	1,209	40	14	3,163	2,396	32
Gross DPS (sen)	17.5	-	13.0	n.m.	n.m.	17.5	13.0	n.m.
Core EPS (sen)	16.6	15.4	12.8	29	8	32.0	26.3	22
Gross loans	426,900	413,090	394,307	8.3	3.3			
Gross impaired loans	14,284	13,309	13,983	2.1	7.3			
Customer deposits	453,634	437,021	420,937	7.8	3.8			
CASA	185,737	175,742	186,703	-0.5	5.7			
Ratios (%)	2Q FY23	1Q FY23	2Q FY22	Yoy (ppts)	Qoq (ppts)	1H FY23	1H FY22	Yoy (ppts)
ROE (Ann.)	10.6	10.0	8.8	1.8	0.5	10.0	8.8	1.2
NIM (Reported)	2.24	2.26	2.47	-0.23	-0.02	2.25	2.46	-0.21
NOII/Net income	31.6	29.5	24.8	6.9	2.1	30.6	24.9	5.7
Cost/Income	45.1	46.9	47.1	-2.0	-1.8	46.0	47.6	-1.6
NCC (Ann.) (bps)	54	31	48	7	24	42	39	3
GIL ratio	3.35	3.22	3.55	-0.20	0.12			
Loan loss coverage	92	94	100	-8	-3			
CASA ratio	40.9	40.2	44.4	-3.4	0.7			
L/D ratio	91.2	91.7	90.3	0.9	-0.4			
CET-1	14.1	13.9	13.9	0.3	0.2			

Source: CIMB, MIDFR

Fig 5: Retrospective performance (Income Statement)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Qtrly Core NP	RM mil	1,773	Qtrly ROE	Qtr value	10.6%	A good quarter driven by NOII, despite a heavy provision.
	27% of FY CNP					
	Qoq	8%		t-1	10.0%	
	Yoy	34%		t-4	8.8%	
Cum Core NP	RM mil	3,418	Cum ROE	Cum value	10.0%	
	Within our forecast					
	53% of FY CNP					
	Within consensus					
	53% of FY CNP					
Yoy	26%	t-1	8.8%			
NII	As expected		NIM	As expected		NIM contraction was relatively minimal, thanks to TH and IDR exposures. Expect IND and TH contributions to push up worsening MY and SG outlooks.
				Qtr value	2.24	
				Cum value	2.25	
	Qtr (Qoq)	4%		Qtr (Qoq)	-2bps	
	Qtr (Yoy)	-1%		Qtr (Yoy)	-23bps	
Cum (Yoy)	-1%	Cum (Yoy)	-21bps			
NOII	As expected		Qtr	% NII	68%	Huge NOII gain was well guided. A large chunk of it was strong NPL sales in Niaga – unfortunately, this NOII source remains unstable for now.
	Qtr (Qoq)	14%		% NOII	32%	
	Qtr (Yoy)	40%	Cum	% NII	69%	
	Cum (Yoy)	32%		% NOII	31%	
OPEX	As expected		Cost/ Inc.	As expected		Decent, but a tougher 2H is expected. Collective agreement is still in negotiation.
				Qtr value	45.1%	
				Cum value	46.0%	
	Qtr (Qoq)	3%		Qtr (Qoq)	-1.8%	
	Qtr (Yoy)	5%		Qtr (Yoy)	-2.0%	
Cum (Yoy)	4%	Cum (Yoy)	-1.6%			

Source: CIMB, MIDFR

Fig 6: Retrospective performance (Balance Sheet, Dividends, and anything extra)

Metric	Surprise? Qoq/Yoy		Metric	Surprise? Qoq/Yoy		Notes (Cum = Cumulative, Qtr = Quarterly)
Loans	+ve surprise					Big winners overseas, domestic growth was muted. Notably, SG posted a whopping +11.7%qoq gain.
	Qoq	3.3%				
	Yoy	8.3%				
	YTD (FY)	4.9%				
Depo. grwth	+ve surprise		CASA grwth	As expected		Huge CASA growth in IND and SG drove overall deposits.
	Qoq	3.8%		Qoq	5.7%	
	Yoy	7.8%		Yoy	-0.5%	
	YTD (FY)	4.8%		YTD (FY)	1.9%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	40.9%		Value now	91.2%	
	Qoq	+0.7%		Qoq	-0.4%	
	Yoy	-3.4%		Yoy	+0.9%	
GIL ratio	As expected		LLC ratio	As expected		GIL sees uptick but CIMB seems to have it under control, given Largely driven by consumer Malaysia.
	Value now	3.35%		Value now	92%	
	Qoq	+12bps		Qoq	-3%	
	Yoy	-20bps		Yoy	-8%	
Qtrly Net CC	As expected		Cum Net CC	As expected		Provision was large but management has guided for lower NCC guidance in FY23. As mentioned previously, expect minimal overlay writeback, as CIMB will be retaining for an improved NCC profile in future.
	Heavy provision			Decent provision		
	Value now	54bps		Value now	42bps	
	t-1	31bps				
			t-4	39bps		
CET 1	Healthy level		Div payout	Div announced		55% payout was a nice surprise.
	As expected			+ve surprise		
	Value now	14.1%		Payout	55%	
	Qoq	0.2%				

Source: CIMB, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY23F	1H FY23	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	10.2-11.0	10.0	MY: ~10.2-11.0%, IND: 12-14%, SG: slightly below guidance, TH: 7-8%.
CIR	<46.5	46.0	OPEX: Mid-single-digit growth range. 2H looking to be heavier.
NIM	-15-20 10-15 bps from 2.51	2.25	MY: -15-20, IND: 4.6-4.8%, TH: -10, SG: flattish (expect a tougher 2H) NIM should improve in the coming quarters.
NOII		32% (yoy)	
Loans	6-7 5-6	4.9 (YTD)	MY: 5-6, IDN: 6-8% (muted corporate side), SG: mid-single digit, TH: high-single digit (focusing consumer side).
Deposits		4.8 (YTD)	
% CASA		40.9	MY: further attrition, SG: flattish (though depending on appetite), TH and IND: to see +ve growth.
Loan/Depo		91.2	
GIL ratio		3.35	
NCC (bps)	40-50 45-55	42	
LLC		92	
CET 1	>13.5	14.1	
Div payout	55 40-60	55	

Source: CIMB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest income	16,096	18,646	19,846	21,624	22,010
Interest expense	(5,221)	(7,016)	(7,980)	(9,120)	(9,120)
Net interest income	10,874	11,630	11,866	12,504	12,890
Islamic banking inc.	3,533	4,000	3,584	3,693	3,807
Other operating inc.	5,105	4,208	5,021	5,882	6,597
Net income	19,513	19,838	20,472	22,079	23,294
OPEX	(9,419)	(9,346)	(9,622)	(10,267)	(10,599)
PPOP	10,094	10,492	10,850	11,813	12,695
Loan allowances	(2,614)	(1,953)	(1,887)	(1,980)	(2,060)
Other allowances	(1,759)	(209)	(200)	(296)	(451)
JV & Associates	68	40	112	121	130
PBT	5,789	8,371	8,874	9,657	10,314
Tax & zakat	(1,397)	(2,778)	(2,219)	(2,414)	(2,579)
NCI	(97)	(153)	(166)	(181)	(193)
Reported NP	4,295	5,440	6,489	7,062	7,542
Core NP	4,648	5,542	6,509	7,071	7,549
Total NII	13,958	15,158	15,021	15,828	16,317
Total NOII	5,555	4,680	5,451	6,251	6,978

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	417,034	434,233	451,295
Other IEAs	5,885	9,751	11,214	12,560	14,067
Non-IEAs	44,325	58,897	59,546	63,092	69,161
Total assets	621,907	666,721	693,096	716,374	742,431
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	56,123	55,407	57,232
Total liabilities	561,798	602,937	625,576	644,225	666,026
Share capital	27,100	29,095	29,095	29,095	29,095
Reserves	31,764	33,397	36,971	41,513	45,689
Shareholders' funds	58,863	62,491	66,065	70,608	74,784
Perpetual pref. shares	200	200	200	200	200
NCI	1,045	1,093	1,255	1,342	1,421
Total equity	60,109	63,784	67,521	72,149	76,405
Total L&E	621,907	666,721	693,096	716,374	742,431
Total IEAs	577,582	607,824	633,551	653,282	673,270
Total IBLs	527,381	548,598	569,452	588,817	608,794
Gross loans	378,033	407,057	431,481	448,740	466,689
CASA	186,052	182,292	186,385	179,830	177,180

FINANCIAL RATIOS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Interest (%)					
NIM	2.47	2.56	2.42	2.46	2.46
Return on IEAs	2.85	3.15	3.20	3.36	3.32
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
Profitability (%)					
ROE	8.1	9.1	10.1	10.3	10.4
ROA	0.8	0.9	1.0	1.0	1.0
NOII/Net income	28.5	23.6	26.6	28.3	30.0
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
Liquidity (%)					
Loan/Deposit	86.3	91.1	91.7	91.8	91.7
CASA ratio	44.0	42.1	41.0	38.0	36.0
Asset Quality (%)					
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	112	112
Net CC (bps)	70	50	45	45	45
Capital (%)					
CET 1	14.2	14.5	14.7	14.3	14.0
Tier 1 capital	15.1	15.4	15.5	15.1	14.8
Total capital	18.0	18.5	18.7	18.3	17.9
Growth (%)					
Total NII	9.7	8.6	-0.9	5.4	3.1
Total NOII	30.3	-15.8	16.5	14.7	11.6
Net income	14.9	1.7	3.2	7.9	5.5
OPEX	7.3	-0.8	3.0	6.7	3.2
Core NP	289.3	19.2	17.4	8.6	6.8
Gross loans	3.3	7.7	6.0	4.0	4.0
Customer deposits	4.8	2.5	5.0	4.1	4.0
CASA	10.3	-2.0	2.2	-3.5	-1.5
Valuation metrics					
Core EPS (sen)	44.6	53.2	62.4	67.8	72.4
Gross DPS (sen)	23.0	26.0	34.3	33.9	36.2
Div payout (%)	54	50	55	50	50
BVPS (RM)	5.6	6.0	6.3	6.8	7.2
Core P/E (x)	12.6	10.6	9.0	8.3	7.8
Div yield (%)	4.1	4.6	6.1	6.0	6.4
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