

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

3QFY23 Preview: Seasonal Competition to Remain Rational

KEY INVESTMENT HIGHLIGHTS

- **Tone: Neutral**
- **Core themes: (a) NIM stability, (b) No major asset quality concerns, (c) Heavier OPEX in 2HFY23, (d) NOII to remain healthy, but sequentially weaker**
- **Forecasts unchanged**
- **Maintain BUY | Unchanged TP of RM6.43 | based on an unchanged FY24F P/BV of 0.95x**

Verdict: Risk-reward still skewed toward the +ve.

Yays	1. CIMB Niaga offers exposure to lucrative Indonesian market. 2. NOII should remain solid, though not on the scale of 2Q. 3. Loan growth should remain healthy.
Nays	1. OPEX to pick up in 2HFY23.
OKs	1. While NIMs could see sequential improvement in 3Q, 4Q and beyond outlook is less certain.

CIMB just had its pre-blackout season briefing. Here are some highlights:

Group NIMs to remain stable. Not sure if sustainable in 4QCY23, as deposit competition has already started to manifest.

MY: To improve. CIMB has cut deposit rates by a cumulative -25bps in the last quarter. Hence, positive spillover effect from this and OPR hike should be apparent in 3QFY23. Deposit competition remains broadly stable.

SG: To see some improvement, due to lower base effects.

TH: Has contracted, due to higher COF.

IND: Also to contract, seeing some NIM pressure.

Possible liquidity tightening, but deposit competition unlikely to be on same scale as previous year. Management attributes last year's competition to a combination of irrational repricing by banks, trying to meet client's expectations of further rate hikes (for their deposits) and BNM's ending of liquid assets qualification. While liquidity is a much larger concern this year, management believes that it should only result in run-of-the-mill seasonal effects.

Adding to this, the management is also planning to test the market after CNY by further cutting rates, given that current deposit rates have yet to fully recover last year's deposit competition.

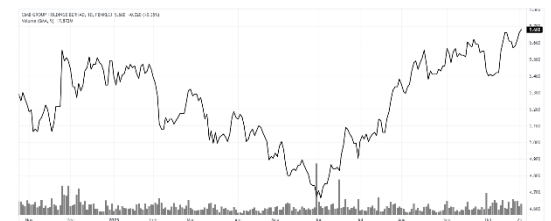
Group NOII to be sequentially weaker. Fee income is moderate, though there may be uplift from lumpy wholesale fee income. Income from forex and NPL sales be more normalised after 2QFY23's bumper quarter – leading to a more normalised overall NOII figure.

Maintain BUY
Unchanged Target Price: RM6.43

RETURN STATISTICS

Price @ 24 October 2023 (RM)	5.68
Expected share price return (%)	+13.3
Expected dividend yield (%)	+6.0
Expected total return (%)	+19.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.6	2.4
3 months	4.6	5.1
12 months	2.7	3.3

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	6,509	7,071	7,549
CNP growth (%)	17	9	7
Div yield (%)	6.0	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 (%)	100	101	100

KEY STATISTICS

FBM KLCI	1,435.65
Issue shares (m)	10,474.0
Estimated free float (%)	41.4
Market Capitalisation (RM'm)	60,577.8
52-wk price range	RM4.8 - RM5.9
3-mth avg daily volume (m)	12.6
3-mth avg daily value (RM'm)	70.1
Top Shareholders (%)	
Khazanah Nasional Bhd	23.6
EPF Board	15.3
Amanah Saham Nasional Bhd	9.9

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Loan growth could see weakness in foreign regions. Local pipeline remains healthy, with no slowdown expected from higher lending rates in the next 6-9 months – unfortunately, no acceleration is expected either. Loan disbursements should decelerate slightly on a sequential basis (2QFY23 saw lumpy disbursements).


Asset quality: No known exposure to problematic airline accounts. GIL ratio should remain relatively stable. Not much NCC downside despite higher OPR. Maybe some slight irritation from impairments and provisioning perspective from commercial segment.

2HFY23 OPEX to pick up. While personnel costs should see some normalisation from 2QFY23's elevated figures (bonuses in that quarter), increases in marketing and admin & general expenses should push up overall figures. Expect to see more elevated figures in FY24 for OPEX, as personnel expenses will be accrued in anticipation of further Collective Agreement negotiations.

Capex-wise, 4QFY23 should shoulder most of the increase, while tech spend is expected to expand further as we end the year.

Forecasts unchanged. We make no changes to our forecast.

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

Maintain BUY call: Unchanged GGM-TP of RM 6.43. The TP is based on an unchanged FY24F P/BV of 0.95x. CIMB remains one of our top picks for the sector, given its exposure to the lucrative Indonesian market and solid NOII generating potential. (**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	19,846	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)	12.7	10.7	9.1	8.4	7.8
Div yield (%)	4.0	4.6	6.0	6.0	6.4
P/BV (x)	1.0	0.9	0.9	0.8	0.8

Source: CIMB, MIDFR

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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