

# CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

## Taking Things to the Next Level

### KEY INVESTMENT HIGHLIGHTS

- **Purpose:** CIMB's Digital Assets Investor Day 2023
- **Tone:** Optimistic
- **Core themes:** (a) Reduction of execution risk, (b) Regional sandbox, (c) Best equipped local bank to handle digital banks
- **Forecasts unchanged**
- **Maintain BUY with unchanged TP of RM6.43 based on an unchanged FY24F P/BV of 0.95x**

### Verdict: Our top pick.

<b>Yays</b>	1. Attractive exposure in regional markets – most notably Indonesia. 2. Significant effort in developing digital banking offerings as well as stake in TnG narrow the gap between digital banks – far more than any local counterpart.
<b>Nays</b>	1. Heavier OPEX expected in 2HFY23.
<b>OKs</b>	1. FY24's loan growth outlook is less certain, though the end of overseas restructuring programmes should lower downside pressure.

**Digital day.** With the brunt of its F23+ Initiative plans having been successfully executed and currently showing some form of stability, CIMB is shifting attention to a turnaround in **CIMB Digital Assets (CDA)**.

**4 main digital businesses have been discussed.** These have yet to be profitable but are expected to be by 2024. Contribution to bottom line is unlikely to be meaningful in the short term, but losses have been declining over the years. These are:

- 1. CIMB Philippines**, built as a full digital bank organically from the ground up, now serves 7m customers and is poised for profitability. It seems that this endeavour has reached a comfortable state of growth and is on its way to working economies of scale.
- 2. CIMB Vietnam**, which started as a universal bank but then pivoted to a "digital attacker" model – this is not a full digital bank.
- 3. TnG and TnG wallet.**

### Our thoughts:

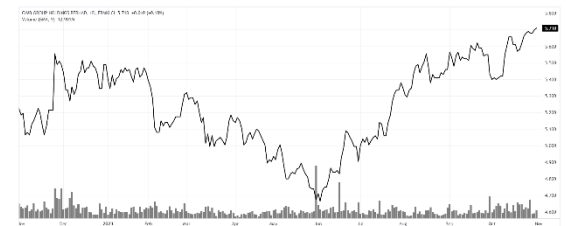
**Undoubtedly the most important "tech investment" made by any local bank – profit generation ability is secondary.** CDA's contribution is unlikely to be material to earnings anytime soon. We believe the core benefit, however, is more intangible in nature: CIMB's success in digital banking models generates and demonstrates tremendous technological know-how – a step ahead of the traditional "digitisation" measures that most other local banks are undergoing (and are familiar with).

**Maintain BUY**
**Unchanged Target Price: RM6.43**

### RETURN STATISTICS

Price @ 31 October 2023 (RM)	5.71
Expected share price return (%)	+12.7
Expected dividend yield (%)	+5.9
<b>Expected total return (%)</b>	<b>+18.6</b>

### 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
<b>Core NP (RM m)</b>	<b>6,509</b>	<b>7,071</b>	<b>7,549</b>
CNP growth (%)	17	9	7
<b>Div yield (%)</b>	<b>6.0</b>	<b>5.9</b>	<b>6.3</b>
Gross DPS (sen)	34.3	33.9	36.2
<b>P/BV (x)</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>
BVPS (RM)	6.3	6.8	7.2
<b>ROE (%)</b>	<b>10.1</b>	<b>10.3</b>	<b>10.4</b>
<b>MIDF/Street CNP (%)</b>	<b>100</b>	<b>101</b>	<b>100</b>

### KEY STATISTICS

FBM KLCI	1,442.14
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

### Analyst

 Samuel Woo  
 samuel.woo@midf.com.my

The Group has created a region-wide sandbox which offers multiple testing grounds and experimentation opportunities for digital banking models – an endeavour notorious for high failure rates. This is an endeavour that puts CIMB ahead of its local peers – allowing for trial-and-error approaches with minimal local impact.

**A region-wide sandbox offers tremendous potential from an intangible standpoint – the core benefit is reduction of execution risk.** In doing so, CIMB's ceiling in the digital banking space has become very high – the rate of learning is accelerated, as mistakes or successes in one region can be implemented or avoided in another. We feel this is very crucial, given the highly niche and personalised nature inherent in digital banking tech, which requires a lot more expertise, infrastructure, and room for failure to achieve a comfortable steady state.

**An accelerated rate of learning could be the key to unlocking TnG e-wallet's success.** TnG e-wallet, while considered a huge success (in terms of market cap and overall usage), remains a lacklustre earnings driver – payments are generally unprofitable, while financial services are. Management has alluded that, in terms of users, the TnG e-wallet has reached a bit of a steady state – the most adequate way to ramp up profitability would be through tapping into the financial services niche.

We feel that the regional sandbox helps minimise execution risk – after all, Ant Financial (the joint owner) is based in Chinese markets, which is vastly different from the local landscape. But with regional grounds such as Vietnam and the Philippines, which offer slightly similar country profiles and models, we believe that the scale of transferrable knowledge should be higher.

**As it stands, CIMB is by far the best-equipped local bank to handle the rise of digital banks.** Having already set up several digital banks and competed in various markets, CIMB has dealt with similar situations and is developing extensive know-how in building and leveraging ecosystems. Couple this with TnG, which provides data on a vast scale – which no other local bank can equal – and digital banks' competitive advantages are minimised.

**Forecasts unchanged.** We make no change to forecasts.

**Key downside risks.** (1) Seasonal deposit competition causes NIM disappointment, (2) Asset quality/provisioning issues, (3) Weaker-than-expected loan growth.

**Maintain BUY call: Unchanged GGM-TP of RM 6.43 (from RM6.43).** The TP is based on an unchanged FY24F P/BV of 0.95x. CIMB remains one of the top picks for the sector and seems making serious effort to position itself well above local peers in developing its digital banking presence. **(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)
<b>Net interest income</b>	<b>10,874</b>	<b>11,630</b>	<b>11,866</b>	<b>12,504</b>	<b>12,890</b>
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
<b>Net income</b>	<b>19,513</b>	<b>19,838</b>	<b>20,472</b>	<b>22,079</b>	<b>23,294</b>
OPEX	(9,419)	(9,346)	(9,622)	(10,267)	(10,599)
<b>PPOP</b>	<b>10,094</b>	<b>10,492</b>	<b>10,850</b>	<b>11,813</b>	<b>12,695</b>
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
<b>PBT</b>	<b>5,789</b>	<b>8,371</b>	<b>8,874</b>	<b>9,657</b>	<b>10,314</b>
Tax & zakat	(1,397)	(2,778)	(2,219)	(2,414)	(2,579)
NCI	(97)	(153)	(166)	(181)	(193)
<b>Reported NP</b>	<b>4,295</b>	<b>5,440</b>	<b>6,489</b>	<b>7,062</b>	<b>7,542</b>
<b>Core NP</b>	<b>4,648</b>	<b>5,542</b>	<b>6,509</b>	<b>7,071</b>	<b>7,549</b>
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
<b>Total assets</b>	<b>621,907</b>	<b>666,721</b>	<b>693,096</b>	<b>716,374</b>	<b>742,431</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	56,123	55,407	57,232
<b>Total liabilities</b>	<b>561,798</b>	<b>602,937</b>	<b>625,576</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	36,971	41,513	45,689
<b>Shareholders' funds</b>	<b>58,863</b>	<b>62,491</b>	<b>66,065</b>	<b>70,608</b>	<b>74,784</b>
Perpetual pref. shares	200	200	200	200	200
NCI	1,045	1,093	1,255	1,342	1,421
<b>Total equity</b>	<b>60,109</b>	<b>63,784</b>	<b>67,521</b>	<b>72,149</b>	<b>76,405</b>
<b>Total L&amp;E</b>	<b>621,907</b>	<b>666,721</b>	<b>693,096</b>	<b>716,374</b>	<b>742,431</b>
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
<b>Interest (%)</b>					
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
<b>Profitability (%)</b>					
<b>ROE</b>	<b>8.1</b>	<b>9.1</b>	<b>10.1</b>	<b>10.3</b>	<b>10.4</b>
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
<b>Liquidity (%)</b>					
Loan/Deposit	86.3	91.1	91.7	91.8	91.7
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	112	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	15.5	15.1	14.8
Total capital	18.0	18.5	18.7	18.3	17.9
<b>Growth (%)</b>					
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
<b>Valuation metrics</b>					
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)	12.8	10.7	9.1	8.4	7.9
<b>Div yield (%)</b>	<b>4.0</b>	<b>4.6</b>	<b>6.0</b>	<b>5.9</b>	<b>6.3</b>
P/BV (x)	1.0	1.0	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