

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

3QFY23 Results: ROE Optimisation Opportunities Still Exist

Maintain BUY
Revised Target Price: RM6.62
 (Previously RM6.43)

KEY INVESTMENT HIGHLIGHTS

- 9MFY23's Core NP of RM5,266m was *Above/Above* our/*street* forecasts: **81%/81%** of full-year forecasts
- Management's tone: **Optimistic**
- Core themes: (a) **CIMB Philippines**, (b) **Further cost optimisation**, (c) **NCC target revised**
- Forecasts revised: **FY23F/24F/25F Core NP adjusted by +5%/+2%/+2%**
- Maintain BUY | Revised TP of RM6.62 | based on a revised FY24F P/BV of 0.98x (formerly 0.95x)**

Verdict: Still an excellent prospect for a variety of reasons.

Yays	1. Still room for improvement in ROE optimisation. 2. Niaga is a solid driver of growth. 3. Digital offerings are to come online soon.
Nays	1. Thai segment is having a rough year. 2. Expect a heavier 4QFY23 OPEX-wise, as many projects will come online then.
OKs	1. GILs and buffers are well maintained. 2. Portfolio restructuring to come to an end soon, reducing contraction pressure.

Results in a nutshell:

▲ **9MFY23's Core net profit (NP) of RM5,266m up by 28%yoy.** Benefit largely through improved NOII and provisioning, as well as normalised taxes. This offset weaker NII and sharper OPEX growth. Earnings came above expectations, as we were not expecting the reduction in the NCC target.

▲ **3QFY23's Core NP of RM1,848m up by 4%qoq.** This was driven by improvements in NII, tax expenses and allowances. This offset weaker NOII and OPEX performance.

▲ **Gross loans grew by 1.1%qoq, coming up to 6.1%YTD.**

▲ **Deposits grew by 0.4%qoq, coming up to 5.2%YTD.**

▲ **GIL moved by -17bps to 3.17%, LLC currently at 95%.**

Have a look at:

▲ **NCC target revised.** Management has revised its NCC target to 35-45bps (after revising it in the previous quarter). There were writebacks due to improve MY consumer Gils. To maintain an LLC of >90%, management countered the writeback with further provisions on the commercial side.

RETURN STATISTICS

Price @ 30 November 2023 (RM)	5.65
Expected share price return (%)	+17.2
Expected dividend yield (%)	+6.7
Expected total return (%)	+24.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.2	-0.4
3 months	4.8	1.4
12 months	-2.2	-0.4

INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
Core NP (RM m)	6,821	7,229	7,717
CNP growth (%)	23	6	7
Div yield (%)	6.4	6.7	7.2
Gross DPS (sen)	36.0	38.1	40.7
P/BV (x)	0.9	0.8	0.8
BVPS (RM)	6.4	6.8	7.1
ROE (%)	10.6	10.6	10.7
MIDF/Street CNP (%)	104	103	104

KEY STATISTICS

FBM KLCI	1,452.74
Issue shares (m)	10,474.0
Estimated free float (%)	41.7
Market Capitalisation (RM'm)	60,684.4
52-wk price range	RM4.8 - RM5.89
3-mth avg daily volume (m)	13.0
3-mth avg daily value (RM'm)	73.1
Top Shareholders (%)	
Khazanah Nasional Bhd	23.6
EPF Board	15.2
Amanah Saham Nasional Bhd	9.9

Analyst

Samuel Woo

samuel.woo@midf.com.my

► **Some NIM contraction is expected in 4QFY23.** NIM rose by +1bps in 3QFY23 – here is the breakdown:

1. **MY:** Low single-digit bps qoq expansion
2. **IND:** -19bps qoq
3. **SG:** +7bps qoq
4. **TH:** -15bps qoq (There was a positive one-off in 2QFY23 – if removed, we see sequential quarter improvement).

▲ **Clear routes to ROE optimisation persist in FY24.** Highlighted in this results briefing are as follows:

CIMB Philippines to turn profitable. As guided in the Digital Day event, CIMB Philippines is expected to breakeven in 4QFY23, before turning profitable in FY24. Previously, it was diluting earnings by RM70m. The turnaround will result in ROE increasing by 10-15bps in the following year. Being a digital bank, the model allows for a low CIR. Management expects it to start targeting SMEs soon, an upgrade from its primary retail base.

Further cost takeouts in FY24. Structural cost takeouts are limited at this point, but management believes there is still room for improvement, specifically targeting cost inflation effects. In 4QFY23, it will be changing its operating model for its wholesale business to enhance efficiency, driving savings in the business segment.

Enhanced dividend payout. Recall the increase in dividend payout to 55% (announced in the previous quarter). The impact on shareholder's funds will drive a sleeker ROE profile going forward.

We think CIMB can maintain a NCC level lower than the initial Forward23+ target of 50-60bps. As mentioned above, management has reduced its FY23 NCC once again. Writebacks aside, this seems like a testament to CIMB's improved asset quality management (via NPL sales and portfolio restructuring) and LLC levels (of >90%), and we think the Group will continue to overperform the Forward23+ target in this respect.

Forecasts revised: FY23F/24F/25F Core NP adjusted by +5%/+2%/+2%. To reflect revised lower NCC guidance – as well as lower NCC in following years.

Key downside risks. (1) Lacklustre loan growth, (2) Poor NOII showings, (3) Higher-than-expected costs.


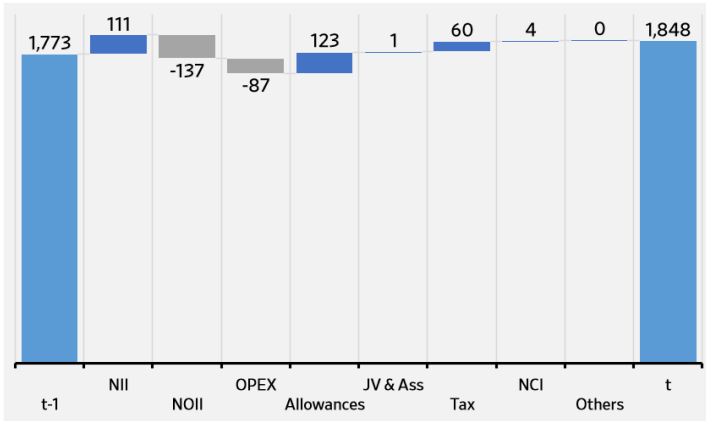
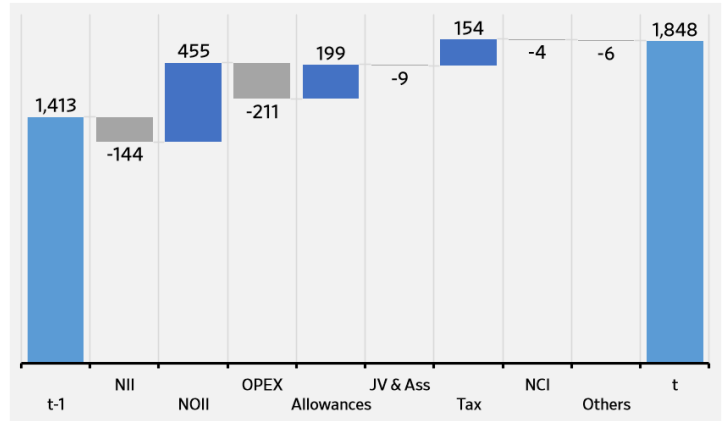
Maintain BUY call: Revised GGM-TP of RM 6.62 (from RM6.43). The TP is based on a revised FY24F P/BV of 0.98x (formerly 0.95x), to reflect altered earnings prospects and ROE-based valuations. (**GGM assumptions:** FY24F ROE of 10.6%, LTG of 3.5% & COE of 10.7%) 

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



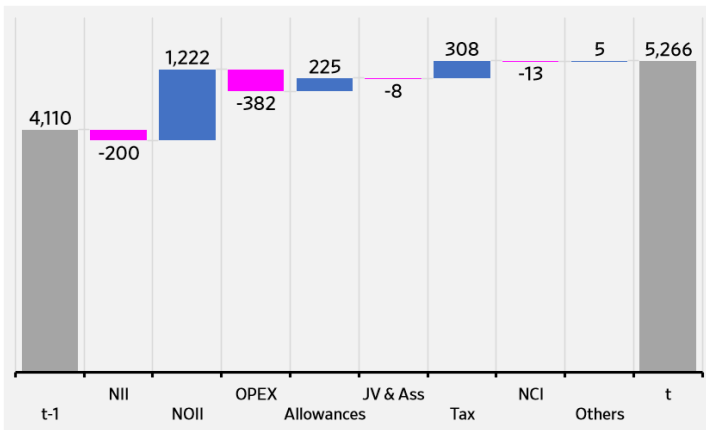
Source: CIMB, MIDFR

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)	3Q FY23	2Q FY23	3Q FY22	Yoy (%)	Qoq (%)	9M FY23	9M FY22	Yoy (%)
Net interest inc.	2,841	2,756	2,980	-5	3	8,310	8,522	-2
Islamic banking inc.	1,090	1,061	1,066	2	3	3,140	2,968	6
Non-interest inc.	1,378	1,516	951	45	-9	4,189	3,128	34
Net income	5,308	5,334	4,997	6	-0	15,639	14,618	7
OPEX	(2,492)	(2,405)	(2,281)	9	4	(7,240)	(6,858)	6
PPOP	2,816	2,929	2,716	4	-4	8,399	7,760	8
Loan provisions	(297)	(558)	(488)	-39	-47	(1,161)	(4,498)	-74
Other provisions	(16)	123	(23)	-31	-113	(31)	(186)	-83
Others	-	-	-	n.m.	n.m.	-	0	n.m.
JV & Associates	(12)	(12)	(3)	n.m.	n.m.	3	11	n.m.
PBT	2,492	2,482	2,202	13	0	7,210	6,354	13
Tax	(601)	(661)	(755)	-20	-9	(1,808)	(2,117)	-15
NCI	(43)	(48)	(39)	10	-9	(136)	(123)	11
Reported NP	1,848	1,773	1,407	31	4	5,266	4,115	28
Core NP	1,848	1,773	1,413	31	4	5,266	4,110	28
Total NII	3,757	3,646	3,901	-4	3	10,925	11,125	-2
Total NOII	1,551	1,688	1,096	42	-8	4,714	3,493	35
Gross DPS (sen)	-	17.5	-	n.m.	n.m.	17.5	13.0	n.m.
Core EPS (sen)	17.3	16.6	13.6	27	4	49.3	39.6	24
Gross loans	431,802	426,900	406,004	6.4	1.1			
Gross impaired loans	13,707	14,284	14,163	-3.2	-4.0			
Customer deposits	455,604	453,634	426,401	6.8	0.4			
CASA	190,592	185,737	187,092	1.9	2.6			
Ratios (%)	3Q FY23	2Q FY23	3Q FY22	Yoy (ppts)	Qoq (ppts)	9M FY23	9M FY22	Yoy (ppts)
ROE (Ann.)	10.8	10.6	9.1	1.7	0.3	10.1	8.7	1.4
NIM (Reported)	2.25	2.24	2.55	-0.30	0.01	2.25	2.50	-0.25
NOII/Net income	29.2	31.6	21.9	7.3	-2.4	30.1	23.9	6.3
Cost/Income	46.9	45.1	45.6	1.3	1.9	46.3	46.9	-0.6
NCC (Ann.) (bps)	28	54	50	-22	-26	37	42	-5
GIL ratio	3.17	3.35	3.49	-0.31	-0.17			
Loan loss coverage	95	92	100	-5	3			
CASA ratio	41.8	40.9	43.9	-2.0	0.9			
L/D ratio	91.9	91.2	91.9	0.0	0.7			
CET-1	13.9	14.1	13.9	0.0	-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	1,848	Qtrly ROE	Qtr value	10.8%	An excellent quarter, standout was lower provisioning costs.
	28% of FY CNP			t-1	10.6%	
	Qoq	4%		t-4	9.1%	
	Yoy	31%				
Cum Core NP	RM mil	5,266	Cum ROE	Cum value	10.1%	
	Within our forecast					
	81% of FY CNP					
	Within consensus					
	81% of FY CNP					
Yoy	28%	t-1	8.7%			
NII	As expected		NIM	As expected		Good retention.
				Qtr value	2.25	
				Cum value	2.25	
	Qtr (Qoq)	3%		Qtr (Qoq)	+1bps	
	Qtr (Yoy)	-4%		Qtr (Yoy)	-30bps	
Cum (Yoy)	-2%	Cum (Yoy)	-25bps			
NOII	As expected		Qtr	% NII	71%	Still a good result, following last quarter's bumper earnings.
	Qtr (Qoq)	-8%		% NOII	29%	
	Qtr (Yoy)	42%	Cum	% NII	70%	
	Cum (Yoy)	35%		% NOII	30%	
OPEX	As expected		Cost/ Inc.	As expected		Cost uptick was well guided for.
				Qtr value	46.9%	
				Cum value	46.3%	
	Qtr (Qoq)	4%		Qtr (Qoq)	+1.9%	
	Qtr (Yoy)	9%		Qtr (Yoy)	+1.3%	
Cum (Yoy)	6%	Cum (Yoy)	-0.6%			

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	As expected					Good loan growth.
	Qoq	1.1%				
	Yoy	6.4%				
	YTD (FY)	6.1%				
Depo. grwth	As expected		CASA grwth	As expected		Possible NIM optimisation exercise, but CASA growth was good.
	Qoq	0.4%		Qoq	2.6%	
	Yoy	6.8%		Yoy	1.9%	
	YTD (FY)	5.2%		YTD (FY)	4.6%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	41.8%		Value now	91.9%	
	Qoq	+0.9%		Qoq	+0.7%	
	Yoy	-2.0%		Yoy	+0.0%	
GIL ratio	+ve surprise		LLC ratio	As expected		Excellent GIL ratio management, and small provision. Largely driven by a reduction in MY household GILs.
	Value now	3.17%		Value now	95%	
	Qoq	-17bps		Qoq	+3%	
	Yoy	-31bps		Yoy	-5%	
Qtrly Net CC	+ve surprise		Cum Net CC	As expected		
	Small provision			Small provision		
	Value now	28bps		Value now	37bps	
	t-1	54bps		t-4	42bps	
CET 1	Healthy level		Div payout	No divvy		Healthy.
	As expected			As expected		
	Value now	13.9%		Payout		
	Qoq	-0.2%				

Others:

Source: CIMB, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY23F	9M FY23	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	10.2-11.0	10.1	MY: ~10.2-11.0%, IND: 12-14%, SG: slightly below guidance, TH: 7-8%.
CIR	<46.5	46.3	OPEX: Mid-single-digit growth range. 2H looking to be heavier.
NIM	-15-20 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		35% (yoy)	
Loans	6-7	6.1 (YTD)	MY: 5-6, IDN: 6-8% (muted corporate side), SG: mid-single digit, TH: high-single digit (focusing consumer side).
Deposits		5.2 (YTD)	
% CASA		41.8	MY: further attrition, SG: flattish (though depending on appetite), TH and IND: to see +ve growth.
Loan/Depo		91.9	
GIL ratio		3.17	
NCC (bps)	35-45 45-55	37	
LLC		95	
CET 1	>13.5	13.9	
Div payout	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)	(1,467)	(1,760)	(1,831)
Other allowances	(1,759)	(209)	(200)	(296)	(451)
JV & Associates	68	40	112	121	130
PBT	5,789	8,371	9,294	9,877	10,543
Tax & zakat	(1,397)	(2,778)	(2,323)	(2,469)	(2,636)
NCI	(97)	(153)	(174)	(185)	(198)
Reported NP	4,295	5,440	6,796	7,223	7,710
Core NP	4,648	5,542	6,821	7,229	7,717
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	62,947	68,708
Total assets	621,907	666,721	693,096	716,229	741,978
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	55,980	55,407	57,232
Total liabilities	561,798	602,937	625,432	644,225	666,026
Share capital	27,100	29,095	29,095	29,095	29,095
Reserves	31,764	33,397	37,111	41,371	45,246
Shareholders' funds	58,863	62,491	66,206	70,466	74,340
Perpetual pref. shares	200	200	200	200	200
NCI	1,045	1,093	1,258	1,339	1,412
Total equity	60,109	63,784	67,664	72,005	75,953
Total L&E	621,907	666,721	693,096	716,229	741,978
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	10.6	10.6	10.7
ROA	0.8	0.9	1.0	1.0	1.1
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	108	108	108
Net CC (bps)	70	50	35	40	40
Capital (%)					
CET 1	14.2	14.5	14.7	14.3	14.0
Tier 1 capital	15.1	15.4	15.5	15.2	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	23.1	6.0	6.7
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	65.4	69.3	74.0
Gross DPS (sen)	23.0	26.0	36.0	38.1	40.7
Div payout (%)	54	50	55	55	55
BVPS (RM)	5.6	6.0	6.4	6.8	7.1
Core P/E (x)	12.7	10.6	8.6	8.1	7.6
Div yield (%)	4.1	4.6	6.4	6.7	7.2
P/BV (x)	1.0	0.9	0.9	0.8	0.8

Source: CIMB, MIDFR

Income Statement

Core NP – Core Net Profit
 PPOP – Pre-Provisioning Operating Profit
 NII – Net Interest Income
 NIM – Net Interest Margin
 COF – Cost of Funds
 NOII – Non-Interest Income
 MTM – Mark to Market
 CIR – Cost to Income Ratio
 OPEX – Operational Expenses

Balance Sheet

LCR – Liquidity Coverage ratio
 L/D ratio – Loan/Deposit ratio
 CASA – Current & Savings accounts
 FD – Fixed Deposits
 GIL – Gross Impaired Loans
 NIL – Net Impaired Loans
 LLC – Loan Loss Coverage
 NCC – Net Credit Costs
 GCC – Gross Credit Costs
 CET 1 – Common Equity Tier 1

Valuations & Sector

ROE – Return on Equity
 GGM – Gordon Growth Model
 P/BV – Price to Book Value
 BVPS – Book Value per Share
 BNM – Bank Negara Malaysia
 OPR – Overnight Policy Rate
 SRR – Statutory Reserve Requirement
 SBR – Standardised Base Rate
 ALR – Average Lending Rate

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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