

# CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

**Maintain BUY**

## Pre-Blackout Season Briefing 4Q23: FY23 Targets Intact

**Revised Target Price: RM6.82**  
*(Previously RM6.62)*

### KEY INVESTMENT HIGHLIGHTS

- **Purpose:** Pre-blackout season briefing
- **Tone:** Mostly optimistic
- **Core themes:** (a) Plans after Forward23+, (b) Strong 4QFY23, (c) Potentially interesting developments in Indonesian space
- **Forecasts unchanged**
- **Maintain BUY | Revised TP of RM6.82 | based on a revised FY25F P/BV of 0.96x (formerly 0.98x, from FY24F)**

**Verdict:** Despite the share price's positive uptrend, we think there is still an upside. On a long-term basis, certainty on CIMB's plans post-Forward23+ (and implications on ROE) is the core catalyst for further positive rerating.

Yays	1. CIMB Niaga remains core driver – Segment is considering further ROE elevating initiatives (inorganic expansion, further measures to control NPL levels).
	2. Digital initiatives are coming into fruition – at very least we could see less drag on ROE.
	3. There is likely further room for base NCC improvement.
	4. Dividend yields are still strong.
	5. Foreign investors are showing signs of return – CIMB is a favourite, given its strong regional presence, size and ESG footprint.
Nays	1. Thailand has yet to stage a convincing turnaround.
	2. Concerns regarding further ROE growth – having reached this point, is room for further improvement limited?
OKs	1. Uncertainty post-Forward23+ – Group has yet to decide on its gameplan, which determines ROE expectations.
	2. Effects of a cost restructuring exercise in FY24 will only manifest in FY25 onward – do not expect anything major.
	3. BCA bank in Indonesia may be forced by OJK to grow its loan book – given its size, this could force competitive asset pricing on an industry-wide basis.

### Have a look at:

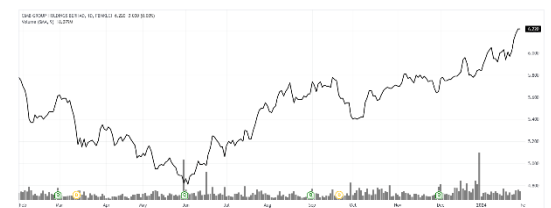
▲ **Plans following Forward23+ could be a core rerating catalyst.** CIMB's multi-year plan ends in FY24. Management is still uncertain of plans following that, split between:

1. Prioritising stability, with all geographical regions to focus on maintaining current ROE levels,
2. Doubling down on high ROE/growth potential areas, especially those with significant digital offering.

Further clarity is expected in 2HFY24 – this is crucial given its determination of ROE expectations.

RETURN STATISTICS	
Price @ 30 January 2024 (RM)	6.22
Expected share price return (%)	+9.6
Expected dividend yield (%)	+6.5
<b>Expected total return (%)</b>	<b>+16.1</b>

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.6	2.0
3 months	5.6	4.2
12 months	7.7	7.0

### INVESTMENT STATISTICS

FYE Dec	FY23F	FY24F	FY25F
<b>Core NP (RM m)</b>	<b>6,821</b>	<b>7,229</b>	<b>7,717</b>
CNP growth (%)	23	6	7
<b>Div yield (%)</b>	<b>5.8</b>	<b>6.1</b>	<b>6.5</b>
Gross DPS (sen)	36.0	38.1	40.7
<b>P/BV (x)</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>
BVPS (RM)	6.4	6.7	7.1
<b>ROE (%)</b>	<b>10.6</b>	<b>10.6</b>	<b>10.7</b>
<b>MIDF/Street CNP (%)</b>	<b>101</b>	<b>100</b>	<b>100</b>

### KEY STATISTICS

FBM KLCI	1,512.75
Issue shares (m)	10,474.0
Estimated free float (%)	43.3
Market Capitalisation (RM'm)	65,910.3
52-wk price range	RM4.8 - RM6.2
3-mth avg daily volume (m)	16.8
3-mth avg daily value (RM'm)	98.3
Top Shareholders (%)	
Khazanah Nasional Bhd	23.6
EPF Board	13.7
Amanah Saham Nasional Bhd	9.9

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▲ **4QFY23 is looking good, no changes to targets.** Most notably, dividend payout and ROE guidance still intact. No jarring negatives.

▲ **Deposit competition stable, management is optimistic for FY24.** COF saw minor uptick but broadly stable – main contributor was MY (seasonal retail trends, non-concerning). Both retail and non-retail rates remain far below FY22 levels.

▲ **Loan growth to persist.** Expect 4QFY23 to see MY benefit from a pickup on the consumer front, while IND and SG see strong non-retail pickup.

▲ **NOII was great.** Non-fee income should be flattish on a sequential quarter basis (3QFY23 had an exceptional showing). Fee income was also strong, driven by IND and TH markets. Forex income has remained strong in Jan-24.

▼ **Light one-off charges in personnel costs.** CIMB underwent a wholesale banking streamlining exercise, which involved downsizing which the effects will be seen in the coming quarter.

▲ **GILs across the board to improve.** Expect improvements across MY, IND, SG and TH. Delinquency trends show stable to slight improvement in terms of indicators.

▶ **Provisioning to increase on a sequential quarter basis.** This will be driven by TH (conservative provisioning) and MY (low base in 3QFY23). Recall that FY23 NCC guidance was revised downwards in 3QFY23.

▲ **Group's FY24 prospects still strong, no major negative concerns.** For the most part, we see threats to achieving Forward23+ targets – though we will be looking closely at the CIR target of <45%, as it is highly contingent on the deposit competition situation.

▲ **Optimistic on deposit competition.** The Group believes that deposit competition in MY will improve by 1HFY24 – but is less certain on the quantum of improvement. So far, competition has remained within expectations.

▲ **Loan growth skewed to 2HFY24.** The Group observes stronger corporate drawdowns in 2HFY24, in line with potential government policies, infrastructure projects rolled out in Malaysia. We think CIMB Niaga will also benefit from post-election certainty (Elections are on Jun-24).

▲ **Some room for wholesale deposit growth.** CIMB has recently undergone a streamlining of its wholesale businesses, to further enhance its cross-sell ability. Management thinks this could draw out more higher volume deposits per loan – we see also potential benefit from a COF perspective.

▼ **Further cost restructuring only likely to happen beyond FY24.** Management was previously guiding for possible (albeit smaller scale) cost takeouts in FY24. Unfortunately, these effects will only be reflected beyond FY24F – currently, they are still in the process of evaluating potential areas of improvement.

▲ **Competition from digital banks not a concern...** At most, CIMB will be looking at other major banks for any interest rate adjustments (they believe this is unlikely).

▲ **...nor is competition from a potential "State-owned bank" in Sarawak.** Management opines those issues, if any, will come from the Investment Banking side – it is confident that its Investment Banking franchise is solid enough to withstand the pressures. Regardless, IB exposure on this front is immaterial.

**Forecasts unchanged.** We make no changes to our earnings forecast.

**Key downside risks.** (1) Lacklustre loan growth, (2) Higher-than-expected NCC, (3) Persistent deposit competition.

**Maintain BUY call: Revised GGM-TP of RM 6.82 (from RM6.62).** The TP is based on a revised FY25F P/BV of 0.96x (formerly 0.98x, rolled on from FY24F), to reflect altered earnings prospects and ROE-based valuations.

**(GGM assumptions: FY25F ROE of 10.7%, LTG of 3.5% & COE of 11.0%)**



## 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)	(1,467)	(1,760)	(1,831)
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>9,294</b>	<b>9,877</b>	<b>10,543</b>
Tax & zakat	(1,397)	(2,778)	(2,323)	(2,469)	(2,636)
NCI	(97)	(153)	(174)	(185)	(198)
<b>Reported NP</b>	<b>4,295</b>	<b>5,440</b>	<b>6,796</b>	<b>7,223</b>	<b>7,710</b>
<b>Core NP</b>	<b>4,648</b>	<b>5,542</b>	<b>6,821</b>	<b>7,229</b>	<b>7,717</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	62,651	68,382
<b>Total assets</b>	<b>621,907</b>	<b>666,721</b>	<b>693,096</b>	<b>715,933</b>	<b>741,652</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	55,980	55,407	57,232
<b>Total liabilities</b>	<b>561,798</b>	<b>602,937</b>	<b>625,432</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	37,111	41,080	44,925
<b>Shareholders' funds</b>	<b>58,863</b>	<b>62,491</b>	<b>66,206</b>	<b>70,175</b>	<b>74,020</b>
Perpetual pref. shares	200	200	200	200	200
NCI	1,045	1,093	1,258	1,333	1,406
<b>Total equity</b>	<b>60,109</b>	<b>63,784</b>	<b>67,664</b>	<b>71,708</b>	<b>75,626</b>
<b>Total L&amp;E</b>	<b>621,907</b>	<b>666,721</b>	<b>693,096</b>	<b>715,933</b>	<b>741,652</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>10.6</b>	<b>10.6</b>	<b>10.7</b>
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
<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	108	108	108
Net CC (bps)	70	50	35	40	40
<b>Capital (%)</b>					
CET 1	14.2	14.5	14.7	14.3	14.0
Tier 1 capital	15.1	15.4	15.5	15.2	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	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
<b>Valuation metrics</b>					
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	6.7	7.1
Core P/E (x)	14.0	11.7	9.5	9.0	8.4
<b>Div yield (%)</b>	<b>3.7</b>	<b>4.2</b>	<b>5.8</b>	<b>6.1</b>	<b>6.5</b>
P/BV (x)	1.1	1.0	1.0	0.9	0.9

Source: CIMB, MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

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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