

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

1QFY24 Results: High CET 1 Ratio Supports Special Dividends

KEY INVESTMENT HIGHLIGHTS

- **3MFY24's Core NP of RM1,936m was *Within/Within* our/street forecasts: 26%/26% of full-year forecasts**
- **Management's tone: Optimistic**
- **Core themes: (a) Weak loan growth, (b) Possible special dividends, (c) Promising NOII outlook**
- **Forecasts unchanged**
- **Maintain BUY | Unchanged TP of RM7.17 | based on an unchanged FY25F P/BV of 1.00x**

Verdict: Possibility of special dividends, while fundamental outlook still solid.

Yays

1. Digital initiatives slowly but surely ramping up.
2. Excellent growth potential from regional exposure.
3. Strong dividend yields, with possibility of special dividends.

Nays

1. Niaga may see some NIM-related weakness.
2. Thailand still yet to stage a convincing turnaround.

OKs

1. Limited room for further ROE optimisation.
2. NCC close to steady state.

Results in a nutshell:

▲ **3MFY24's Core net profit (NP) of RM1,936m up by 18%yoy.** Driven largely by stronger NII/NOII result offsetting steep cost inflation and higher provisions.

▲ **1QFY24's Core NP of RM1,936m up by 53%qoq.** Largely driven by excellent NOII performance (4QFY24 was weak on this front). Better NII and cost control offset higher provisions.

▼ **Gross loans grew by 0.3%qoq, coming up to 0.3%YTD.** Weak performance was due to (1) Lumpy corporate repayments, (2) Tighter pricing in corporate divisions, (3) Ramp up in lower-yielding loans in IND last quarter, which had to be repaid.

► **Deposits grew by 1.4%qoq, coming up to 1.4%YTD.**

▲ **GIL moved by -12bps to 2.55%, LLC currently at 101%.**

Have a look at:

► **Management is still cautiously optimistic about NIM outlook.** Core driver will be MY, as the COF situation is still easing. There is less room to manoeuvre in the loan space, as CIMB is already pricing slightly above peers – it has no further room to price even higher.

As guided previously possible downside may come from IND, as wholesale loan yields are not easily passed through in the event of a rate hike – while deposit rates are.

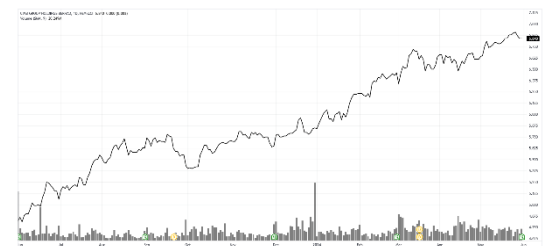
Maintain BUY

Unchanged Target Price: RM7.17

RETURN STATISTICS

Price @ 31 May 2024 (RM)	6.84
Expected share price return (%)	+4.8
Expected dividend yield (%)	+5.8
Expected total return (%)	+10.6

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	4.3	-0.9
3 months	3.0	2.5
12 months	37.7	20.9

INVESTMENT STATISTICS

FYE Dec	FY24F	FY25F	FY26F
Core NP (RM m)	7,509	8,054	8,359
CNP growth (%)	8	7	4
Div yield (%)	5.5	5.8	5.8
Gross DPS (sen)	37.7	39.4	40.0
P/BV (x)	1.0	1.0	0.9
BVPS (RM)	6.8	7.2	7.6
ROE (%)	10.7	10.8	10.6
MIDF/Street CNP (%)	100	100	97

KEY STATISTICS

FBM KLCI	1,596.68
Issue shares (m)	10,664.8
Estimated free float (%)	44.1
Market Capitalisation (RM'm)	73,056.7
52-wk price range	RM4.74 - RM6.92
3-mth avg daily volume (m)	21.1
3-mth avg daily value (RM'm)	139.3
Top Shareholders (%)	
Khazanah Nasional Bhd	22.0
EPF Board	14.9
Amanah Saham Nasional Bhd	9.9

Analyst

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▲ **NOII outlook still looks promising.** (1) NPL sales to be at least equal to FY23’s strong result, (2) Trading and investment income are variable, but at least 2QFY24 is shaping up to be strong, (3) Retail fee outlook is solid, as investment demand has returned, (4) Wholesale fees did exceptionally well this quarter but may not perform as well in 2QFY24 – generally this is quite inconsistent.

▲ **Possible one-off dividends as a capital optimisation measure.** This is due to CIMB’s CET 1 ratio being nearly at the 15% level, well above the 13% level of its peers. However, when considering a new sustainable dividend policy and further RWA optimisation, we may have to wait until the rollout of the next multi-year plan, as it must be deliberated upon in tandem with growth expectations.

On a separate note, Basel III effects aren’t expected to be significant, as former RWA levels were already higher than peers.

▶ **Sharp ramp-up in CET 1 ratio 1 this quarter is not the norm.** This was largely due to weaker loan growth performance. As management expects stronger loan growth in subsequent quarters, RWA drawdown should be more normalised.

Forecasts unchanged. We make no changes to our forecasts.

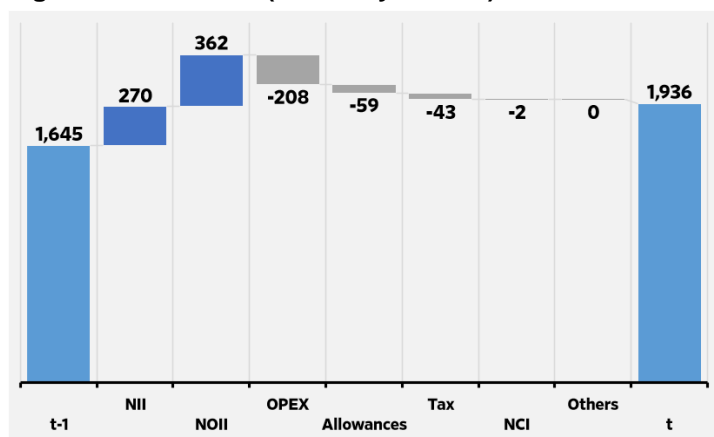
Key downside risks. (1) Steeper-than-expected NIM compression, (2) Underwhelming NOII performance, (3) Steep OPEX growth.

Maintain BUY call: Unchanged GGM-TP of RM 7.17. The TP is based on an unchanged FY25F P/BV of 1.00x, to reflect altered earnings prospects and ROE-based valuations.

(GGM assumptions: FY25F ROE of 10.8%, LTG of 3.5% & COE of 10.8%)

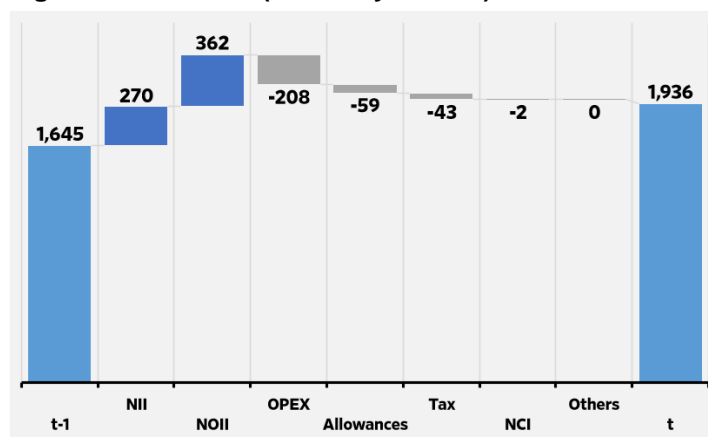


Fig 1: QoQ P/L walk (Quarterly results)



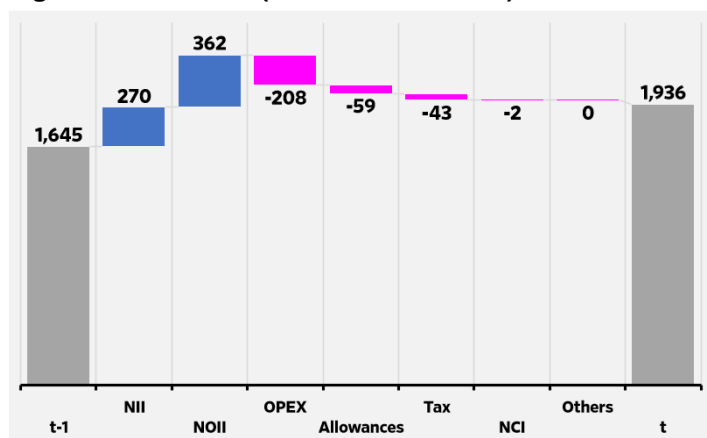
Source: CIMB, MIDFR

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)	1Q FY24	4Q FY23	1Q FY23	Yoy (%)	Qoq (%)	3M FY24	3M FY23	Yoy (%)
Net interest inc.	2,863	2,328	2,714	6	23	2,863	2,714	6
Islamic banking inc.	1,123	1,120	989	14	0	1,123	989	14
Non-interest inc.	1,643	1,482	1,295	27	11	1,643	1,295	27
Net income	5,629	4,930	4,997	13	14	5,629	4,997	13
OPEX	(2,552)	(2,625)	(2,344)	9	-3	(2,552)	(2,344)	9
PPOP	3,077	2,305	2,654	16	33	3,077	2,654	16
Loan provisions	(404)	(374)	(306)	32	8	(404)	(306)	32
Other provisions	(99)	(26)	(139)	-29	286	(99)	(139)	-29
JV & Associates	(0)	(20)	27	n.m.	n.m.	(0)	27	n.m.
PBT	2,573	1,885	2,236	15	36	2,573	2,236	15
Tax	(590)	(570)	(547)	8	3	(590)	(547)	8
NCI	(47)	(45)	(45)	5	4	(47)	(45)	5
Reported NP	1,936	1,270	1,645	18	53	1,936	1,645	18
Core NP	1,936	1,270	1,645	18	53	1,936	1,645	18
Total NII	3,792	3,701	3,522	8	2	3,792	3,522	8
Total NOII	1,837	1,229	1,475	25	49	1,837	1,475	25
Gross DPS (sen)	-	25.5	-	n.m.	n.m.	-	-	n.m.
Core EPS (sen)	18.1	11.9	15.4	17	52	18.1	15.4	17
Gross loans	442,301	440,922	413,090	7.1	0.3			
Gross impaired loans	11,296	11,770	13,309	-15.1	-4.0			
Customer deposits	469,995	463,442	437,021	7.5	1.4			
CASA	204,931	203,077	175,742	16.6	0.9			
Ratios (%)	1Q FY24	4Q FY23	1Q FY23	Yoy (ppts)	Qoq (ppts)	3M FY24	3M FY23	Yoy (ppts)
ROE (Ann.)	11.4	7.4	10.0	1.4	4.0	11.2	9.9	1.3
NIM (Reported)	2.18	2.15	2.26	-0.08	0.03	2.18	2.26	-0.08
NOII/Net income	32.6	24.9	29.5	3.1	7.7	32.6	29.5	3.1
Cost/Income	45.3	53.2	46.9	-1.6	-7.9	45.3	46.9	-1.6
NCC (Ann.) (bps)	38	35	31	7	3	38	31	7
GIL ratio	2.55	2.67	3.22	-0.67	-0.12			
Loan loss coverage	101	97	94	7	4			
CASA ratio	43.6	43.8	40.2	3.4	-0.2			
L/D ratio	91.7	92.7	91.7	0.0	-1.0			
CET-1	14.5	14.5	13.9	0.6	0.0			

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	1,936	Qtrly ROE	Qtr value	11.4%	
	26% of FY CNP					
	Qoq	53%		t-1	7.4%	
	Yoy	18%		t-4	10.0%	
Cum Core NP	RM mil	1,936	Cum ROE	Cum value	11.2%	
	Within our forecast					
	26% of FY CNP					
	Within consensus					
	26% of FY CNP					
Yoy	18%	t-1	9.9%			
NII	As expected		NIM	As expected		
				Qtr value	2.18	
				Cum value	2.18	
	Qtr (Qoq)	2%		Qtr (Qoq)	+3bps	
	Qtr (Yoy)	8%		Qtr (Yoy)	-8bps	
	Cum (Yoy)	8%		Cum (Yoy)	-8bps	
NOII	As expected		Qtr	% NII	67%	
	Qtr (Qoq)	49%		% NOII	33%	
	Qtr (Yoy)	25%	Cum	% NII	67%	
	Cum (Yoy)	25%		% NOII	33%	
OPEX	As expected		Cost/ Inc.	As expected		
				Qtr value	45.3%	
				Cum value	45.3%	
	Qtr (Qoq)	-3%		Qtr (Qoq)	-7.9%	
	Qtr (Yoy)	9%		Qtr (Yoy)	-1.6%	
Cum (Yoy)	9%	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					Due to lumpy repayments and tighter pricing strategies. Regardless, normalisation is expected in subsequent quarters.
	Qoq	0.3%				
	Yoy	7.1%				
	YTD (FY)	0.3%				
Depo. grwth	As expected		CASA grwth	As expected		
	Qoq	1.4%		Qoq	0.9%	
	Yoy	7.5%		Yoy	16.6%	
	YTD (FY)	1.4%		YTD (FY)	0.9%	
CASA ratio	As expected		L/D ratio	As expected		
	Value now	43.6%		Value now	91.7%	
	Qoq	-0.2%		Qoq	-1.0%	
	Yoy	+3.4%		Yoy	+0.0%	
GIL ratio	+ve surprise		LLC ratio	As expected		
	Value now	2.55%		Value now	101%	
	Qoq	-12bps		Qoq	+4%	
	Yoy	-67bps		Yoy	+7%	
Qtrly Net CC	As expected		Cum Net CC	As expected		
	Decent provision			Decent provision		
	Value now	38bps		Value now	38bps	
	t-1	35bps				
	t-4	31bps		t-4	31bps	
CET 1	Very healthy level		Div payout	No divvy		Low loan growth contributed to a very high CET 1 ratio. Management wants special dividends to streamline ROE.
	As expected			As expected		
	Value now	14.5%		Payout		
	Qoq	0.0%				
Others:						

Source: CIMB, MIDFR

Fig 7: Targets, Achievements, and Outlook

Targets	FY24F	3M FY24	Notes (Red: New guidance, Strikethrough: Guidance is no longer pertinent)
ROE	11.0-11.5	11.2	Management guides that the result will likely come in the lower end.
CIR	<46.9	45.3	OPEX growth: mid-single-digit level.
NIM	+0-5bps from 2.22	2.18	MY: +0-5bps improvement, due to easing COF situation. IND: Stable to minor contraction.
NOII		25% (yoy)	
Loans	5-7	0.3 (YTD)	Weak quarter, but loan growth should normalise after this.
Deposits		1.4 (YTD)	
% CASA		43.6	
Loan/Depo		91.7	
GIL ratio		2.55	
NCC (bps)	30-40	38	
LLC	90-100	101	
CET 1	>13.5	14.5	
Div payout	55	-	Possible special dividends streamlining ROE (CET 1 ratio is too high).

Source: CIMB, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest income	18,646	25,111	21,837	22,513	23,099
Interest expense	(7,016)	(14,027)	(9,120)	(9,120)	(9,120)
Net interest income	11,630	11,084	12,717	13,393	13,979
Islamic banking inc.	4,000	4,260	3,756	3,956	4,129
Other operating inc.	4,208	5,670	5,903	6,195	6,491
Net income	19,838	21,014	22,377	23,544	24,599
OPEX	(9,346)	(9,865)	(10,405)	(10,712)	(11,193)
PPOP	10,492	11,149	11,971	12,831	13,407
Loan allowances	(1,953)	(1,534)	(1,590)	(1,685)	(1,786)
Other allowances	(209)	(57)	(275)	(303)	(366)
JV & Associates	40	(17)	162	170	176
PBT	8,371	9,541	10,268	11,013	11,431
Tax & zakat	(2,778)	(2,379)	(2,567)	(2,753)	(2,858)
NCI	(153)	(181)	(193)	(207)	(214)
Reported NP	5,440	6,981	7,509	8,054	8,359
Core NP	5,542	6,981	7,509	8,054	8,359
Total NII	15,158	14,626	16,098	16,953	17,695
Total NOII	4,680	6,388	6,279	6,590	6,904

BALANCE SHEET

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash & ST funds	47,105	37,980	39,011	40,227	39,953
Investment securities	156,410	198,844	199,893	201,251	202,932
Net loans	394,557	429,450	456,007	483,381	512,397
Other IEAs	9,751	9,708	10,873	12,177	13,639
Non-IEAs	58,897	57,590	62,551	68,320	76,173
Total assets	666,721	733,572	768,335	805,356	845,093
Customer deposits	432,950	463,442	491,712	521,706	553,531
Other IBLs	115,648	148,148	148,699	149,797	151,464
Non-IBLs	54,340	52,143	53,751	55,519	57,464
Total liabilities	602,937	663,733	694,162	727,022	762,459
Share capital	29,095	29,095	29,095	29,095	29,095
Reserves	33,397	39,232	43,499	47,582	51,803
Shareholders' funds	62,491	68,327	72,593	76,677	80,897
Perpetual pref. shares	200	200	200	200	200
NCI	1,093	1,312	1,379	1,457	1,537
Total equity	63,784	69,839	74,173	78,334	82,634
Total L&E	666,721	733,572	768,335	805,356	845,093
Total IEAs	607,824	675,982	705,783	737,036	768,920
Total IBLs	548,598	611,590	640,411	671,503	704,994
Gross loans	407,057	440,922	467,377	495,420	525,145
CASA	182,292	203,077	206,519	213,900	226,948

FINANCIAL RATIOS

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest (%)					
NIM	2.56	2.28	2.33	2.35	2.35
Return on IEAs	3.15	3.91	3.16	3.12	3.07
Cost of funds	1.30	2.42	1.46	1.39	1.33
Net interest spread	1.84	1.49	1.70	1.73	1.74
Profitability (%)					
ROE	9.1	10.7	10.7	10.8	10.6
ROA	0.9	1.0	1.0	1.0	1.0
NOII/Net income	23.6	30.4	28.1	28.0	28.1
Effective tax rate	33.2	24.9	25.0	25.0	25.0
Cost/Income	47.1	46.9	46.5	45.5	45.5
Liquidity (%)					
Loan/Deposit	91.1	92.7	92.7	92.7	92.6
CASA ratio	42.1	43.8	42.0	41.0	41.0
Asset Quality (%)					
GIL ratio	3.27	2.67	2.50	2.50	2.50
LLC ratio	93	97	95	95	95
LLC (w. reserves)	96	106	105	104	104
Net CC (bps)	50	36	35	35	35
Capital (%)					
CET 1	14.5	14.5	14.2	14.2	14.0
Tier 1 capital	15.4	15.1	14.8	14.8	14.6
Total capital	18.5	18.2	17.9	17.9	17.7
Growth (%)					
Total NII	8.6	-3.5	10.1	5.3	4.4
Total NOII	-15.8	36.5	-1.7	5.0	4.8
Net income	1.7	5.9	6.5	5.2	4.5
OPEX	-0.8	5.6	5.5	3.0	4.5
Core NP	19.2	26.0	7.6	7.3	3.8
Gross loans	7.7	8.3	6.0	6.0	6.0
Customer deposits	2.5	7.0	6.1	6.1	6.1
CASA	-2.0	11.4	1.7	3.6	6.1
Valuation metrics					
Core EPS (sen)	51.8	65.3	70.2	75.3	78.2
Gross DPS (sen)	26.0	43.0	37.7	39.4	40.0
Div payout (%)	50	66	55	55	55
BVPS (RM)	5.8	6.4	6.8	7.2	7.6
Core P/E (x)	13.2	10.5	9.7	9.1	8.8
Div yield (%)	3.8	6.3	5.5	5.8	5.8
P/BV (x)	1.2	1.1	1.0	1.0	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