

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

Maintain BUY

Pre-Results 1QFY24: Shaping Up to be A Solid Quarter

Revised Target Price: RM7.17
 (Previously RM6.95)

KEY INVESTMENT HIGHLIGHTS

- **Tone: Optimistic**
- **Core themes: (a) NIM expansion, (b) Asset quality retained, (c) Strong NOII performance**
- **Forecasts revised: FY24/25/26F earnings revised by +0.5%/+2%/+1% respectively**
- **Maintain BUY. Revised TP of RM7.17 based on a revised FY25F P/BV of 1.00x**

Verdict: Good dividend yields, and still some share upside potential.

Yays	Nays	OKs
1. Niaga and Singapore provide excellent regional exposure. 2. Digital initiatives coming to fruition. 3. Dividend yields are strong, with the possibility of special dividend recurrence.	1. Thailand is yet to stage a convincing turnaround.	1. Limited room for further ROE optimisation. 2. NCC is nearing its steady state.

Have a look at:

- ▲ **Group NIMs saw slight margin expansion:**
 - ▼ **SG:** FD repricing timing and loss of CASA to term deposits
 - ▼ **TH:** COF increases, as well as less optimal asset mix
 - ▲ **IND:** Improvement in loan yields, while COF remains unchanged
 - ▲ **MY:** Driven by COF improvements
- ▶ **MY COF should still see benefits realised in 2QFY24.** This comes from deposit initiatives made in Apr-23. Beyond 2QFY24, however, there is little scope for improvement (expect only minor tweaks to deposit rates).

▲ **NOII saw a good quarter.** This was driven by good fee income, NPL sales in IND, and non-fee income (FX and trading) via MY and SG. While CIMB guides for lumpy NPL sales in subsequent quarters, FY24 should be able to sustain FY23's level.

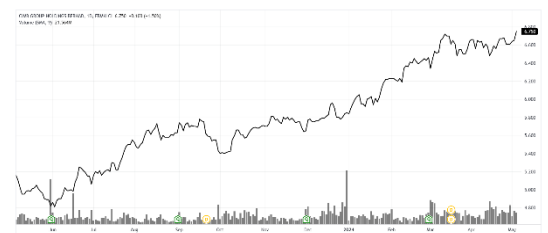
▶ **Loan growth outlook is more mixed.** CIMB retains its FY24 loan growth target of 5-7%, with MY's targeted growth at 5%. On the possibility of potential upside surprises (given its peers have opted for much higher loan targets), the management was pessimistic, prioritising NIM over loan growth.

On a Group basis, CIMB is willing to drop further market share in corporate and business banking loan segments. However, it will be less willing to lower exposure to consumer and SME segments, as a loss in franchising and presence in those segments is harder to recover. Mortgages will be under scrutiny, especially if the costs outweigh cross-selling potential. The Group has already increased mortgage yields by +20bps over the last 12 months, losing 5-10% of acceptance level.

RETURN STATISTICS

Price @ 6 May 2024 (RM)	6.75
Expected share price return (%)	+6.2
Expected dividend yield (%)	+5.8
Expected total return (%)	+12.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.5	-3.1
3 months	-0.5	2.8
12 months	32.1	18.5

INVESTMENT STATISTICS

FYE Dec	FY24F	FY25F	FY26F
Core NP (RM m)	7,509	8,054	8,359
CNP growth (%)	8	7	4
Div yield (%)	5.6	5.8	5.9
Gross DPS (sen)	37.7	39.4	40.0
P/BV (x)	1.0	0.9	0.9
BVPS (RM)	6.8	7.2	7.6
ROE (%)	10.7	10.8	10.6

KEY STATISTICS

FBM KLCI	1,597.39
Issue shares (m)	10,664.8
Estimated free float (%)	44.1
Market Capitalisation (RM'm)	70,593.8
52-wk price range	RM4.74 - RM6.8
3-mth avg daily volume (m)	19.5
3-mth avg daily value (RM'm)	127.3
Top Shareholders (%)	
Khazanah Nasional Bhd	22.0
EPF Board	14.9
Amanah Saham Nasional Bhd	9.9

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▲ **Still optimistic about CASA outlook.** MY, IND and TH still sees good traction while SG is still losing out to term deposits. The focus of MY is on business CASA: Via the CIMB @ work initiative (payroll options), local businesses with linkage to SG and regrowing government CASA (it has lost market share for a couple of years).

▲ **No major deteriorations on an asset quality front.** There may be slight festive-season-related missed repayments in the MY SME space, but management assures us that these are mostly movements into delinquencies rather than full-blown stage 3 impairments.

On the current NCC guidance of 30-40bps, management believes this is close to the steady state and advises not to expect it to reduce further in the near term.

▶ **No major ROE plans soon.** Management mentions that any plans to lift ROE further will need to involve MY, as it is too large of an earnings contributor to ignore. While the official mid-term drivers (post-2025) are still being eked out, possible near-term drivers to MY include better-than-expected NIMs and cost control opportunities. TH also has some space for improvement.

Forecasts revised: FY24/25/26 Core NP revised by +0.5%/2%/+1% respectively. This is to account for lower provisions, considering solid asset quality recovery.

Key downside risks. (1) Poor NOII performance, (2) Weaker-than-expected NIM performance, (3) Weak loan growth.

Maintain BUY call: Revised GGM-TP of RM 7.17 (from RM6.95). The TP is based on a revised FY25F P/BV of 1.00x (Previously 0.97x).

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



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)	13.0	10.3	9.6	9.0	8.6
Div yield (%)	3.9	6.4	5.6	5.8	5.9
P/BV (x)	1.2	1.1	1.0	0.9	0.9

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