

CIMB Group Holdings Berhad

(1023 | CIMB MK) Financial Services | Finance

Maintain BUY

Pre-Results 2QFY24: NIM Expansion this Quarter

Revised Target Price: RM8.12
 (Previously RM7.17)

KEY INVESTMENT HIGHLIGHTS

- **Purpose:** CIMB's pre-results briefing
- **Tone:** Cautiously optimistic
- **Core themes:** (a) Potential loan yield compression in future, (b) Union negotiations underway, (c) Slower loan growth this quarter
- **Forecasts unchanged**
- **Maintain BUY | Revised TP of RM8.12 | based on a revised FY25F P/BV of 1.15x (from 1.00x previously)**

Verdict: High certainty of special dividend payout warrant better valuations. Despite management having some reservations, they seem confident in achieving FY24 ROE target.

Yays	1. Digital initiatives are slowly but surely ramping up. 2. Excellent growth potential from regional exposure. 3. Dividend yields are strong, with the possibility of special payout.
Nays	1. In future, we may see some NIM-related weakness from lower loan yields. 2. Thailand is still amid its turnaround plans.
OKs	1. Limited room for further ROE optimisation. 2. Further cost pressure from CA adjustments is expected. 3. Valuations less attractive than before – but its high ROE (seemingly sustainable) and excellent dividend payout justifies room for further upside rerating.

Have a look at:

▲ **Expect management to drop some hints on multi-year strategy by 3QFY24.** Officially, the full plan will be announced to the market by 1QFY25.

▲ **FY24 ROE target of 11.0-11.5% most likely in the bag.** Management notes, however, that whether FY24's ROE result will come in the upper or lower bound of guidance is dependent on the end-year NIM result.

▲ **A one-off special dividend in FY24 is still on the cards – but subject to a whole host of factors.** This dividend was announced to get rid of excess capital. Regardless, management's 13.5% CET1 target is not hard or fast – so there's no real rush.

▲ **Sequential NIM expansion this quarter.** This is driven by better COF has pricier FDs expire (namely in My & TH). Loan pricing was stable in the quarter, and saw slight improvement coming from TH's revised loan composition.

▶ **But be wary of potential loan yield compression in 2HFY24.** Management may have to reduce local mortgage rates to maintain its consumer franchise – currently, its mortgage rates are 20bps higher than that of larger local banks.

RETURN STATISTICS

Price @ 29 July 2024 (RM)	7.24
Expected share price return (%)	+12.2
Expected dividend yield (%)	+5.4
Expected total return (%)	+17.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.7	3.6
3 months	5.7	6.1
12 months	32.1	18.1

INVESTMENT STATISTICS

FYE Dec	FY24F	FY25F	FY26F
Core NP (RM m)	7,509	8,054	8,359
CNP growth (%)	8	7	4
Div yield (%)	6.6	5.4	5.5
Gross DPS (sen)	47.9	39.4	40.0
P/BV (x)	1.1	1.0	1.0
BVPS (RM)	6.7	7.1	7.5
ROE (%)	10.7	11.0	10.8
MIDF/Street CNP (%)	99	99	97

KEY STATISTICS

FBM KLCI	1,624.56
Issue shares (m)	10,664.8
Estimated free float (%)	44.8
Market Capitalisation (RM'm)	76,930.0
52-wk price range	RM5.32 - RM7.25
3-mth avg daily volume (m)	20.7
3-mth avg daily value (RM'm)	142.5
Top Shareholders (%)	
Khazanah Nasional Bhd	21.6
EPF Board	14.7
Amanah Saham Nasional Bhd	9.9

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▲ **Solid NOII this quarter.** Although non-fee contributions (from FX, trading and NPL sales) were strong this time, they did not reach 1QFY24's level. Regardless, this was offset by stronger fee income performance – driven by more deals and loan-related fees, as well as a pick up in MY, TH and SG wealth management performance.

▼ **Union negotiations to drive personnel costs.** CIMB will be beginning union negotiations in 2QFY24 (collective agreement adjustments for FY24, FY25 and FY26) – hence expect a spike in cost starting this quarter. However, we do not expect any lumpy one-off costs – management will space this evenly.

▲ **No major developments on an asset quality front and no changes to the 30-40bps NCC target. IND:** +ve/stable delinquency trend. **MY:** +ve/stable outlook. Pressure from the SME segment seen in 1QFY24 has since dissipated. **TH:** Still some issues with consumer finance, but delinquency trends remain within the threshold. Overall NCC allocations for this have been reduced, so management will start regrowing the loan segment once more.

▶ **Slower loan growth seen this quarter.** Although the local banking sector has experienced strong growth, CIMB will be lagging– mainly due to management turning down larger (and trendier) corporate projects to manage its NIMs (Note: we do not feel like CIMB has missed the boat – opportunities are still abundant). This was offset by a strong consumer segment (particularly mortgage and PF loans) as well as strong SME segment growth.

▼ **Management will have to lower rates to maintain the loan franchise.** As mentioned above management notes that it may have to price mortgages and other loan segments more competitively to maintain its customer franchise (i.e. reclaim lost market share, as seen in 1QFY24).

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

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 8.12. The TP is based on a revised FY25F P/BV of 1.15x (from 1.00x previously). We revised our valuation basis to reflect positive sentiment stemming from special dividend issuance.

(GGM assumptions: FY25F ROE of 11.0%, LTG of 3.5% & COE of 10.0%) 

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	61,404	67,172	75,025
Total assets	666,721	733,572	767,187	804,208	843,945
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	42,373	46,456	50,676
Shareholders' funds	62,491	68,327	71,467	75,550	79,771
Perpetual pref. shares	200	200	200	200	200
NCI	1,093	1,312	1,358	1,435	1,516
Total equity	63,784	69,839	73,025	77,186	81,487
Total L&E	666,721	733,572	767,187	804,208	843,945
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	11.0	10.8
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	47.9	39.4	40.0
Div payout (%)	50	66	70	55	55
BVPS (RM)	5.8	6.4	6.7	7.1	7.5
Core P/E (x)	14.0	11.1	10.3	9.6	9.3
Div yield (%)	3.6	5.9	6.6	5.4	5.5
P/BV (x)	1.2	1.1	1.1	1.0	1.0

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