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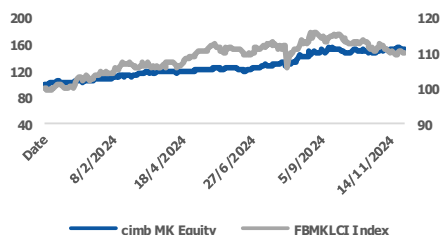
<b>Recommendation:</b>	<b>BUY</b>
<b>Current Price:</b>	<b>RM 8.19</b>
<b>Previous Target Price:</b>	-
<b>Target Price:</b>	<b>RM 9.28</b>
<b>Upside/Downside:</b>	<b>13.3%</b>

#### Stock information

Board	MAIN
Sector	Financial Services
Bursa / Bloomberg Code	1023 / CIMB MK
Syariah Compliant	No
FTSE4Good Index	Yes
FTSE ESG Rating	★★★★
Bloomberg ESG Rating	N/A
Shares issued (m)	10,721.7
Market Cap (RM' m)	87,811.0
52-Week Price Range (RM)	8.50-5.59
Beta (x)	1.2
Free float (%)	65.8
3M Average Volume (m)	25.6
3M Average Value (RM' m)	209.7

<b>Top 3 Shareholders</b>	<b>(%)</b>
Khazanah Nasional Bhd	21.6
Employees Provident Fund Board	15.5
Amanah Saham Nasional Bhd	9.9

#### Share Price Performance



	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute (%)	0.9	0.5	45.3
Relative (%)	1.2	3.6	30.3

## CIMB Berhad

### A Regional Powerhouse

#### Summary

- **CIMB is one of Malaysia's largest banks, possessing a powerful presence within the ASEAN region.**
- **We draw attention to a couple of points: (i) Considerable improvement in ROE profile, following the Group's Forward23+ plan, (ii) A proxy to the fast-growing Indonesian market, (iii) The underperforming CIMB Thai will likely be a central focus of the next multi-year plan, (iv) A superior asset quality and provisioning profile post-pandemic.**
- **We initiate coverage on CIMB with a BUY recommendation with a TP of RM9.28 based on FY25F GGM-PBV of 1.31x.**

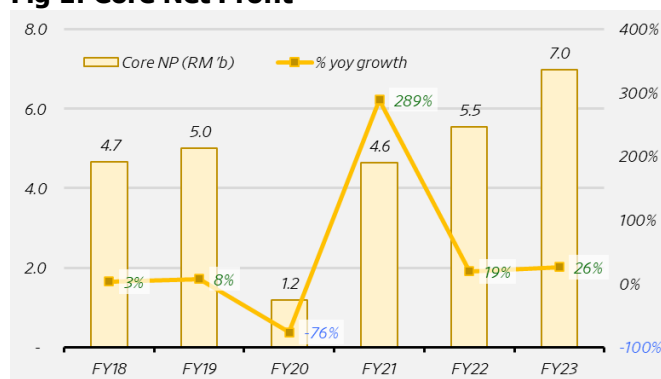
#### Company Background

- CIMB Group (CIMB) is a leading focused ASEAN bank and one of the region's foremost corporate advisors. It is also positioned as a world leader in Islamic finance. The brunt of its profit base comes from Malaysia and Indonesia.
- The Group is headquartered in Kuala Lumpur, Malaysia, and offers Consumer Banking, Commercial Banking, Wholesale Banking, Islamic Banking, Wealth Management and Digital Payment Products and Services. It is the fifth largest banking group by assets in ASEAN and, as of the end of December 2023, had over 33,000 staff and around 25 million customers.
- CIMB Group Holdings Berhad has been listed on the Main Market of Bursa Malaysia since 1987 and has a market capitalisation of RM62.4 billion as of 31 December 2023.

## Income Statement

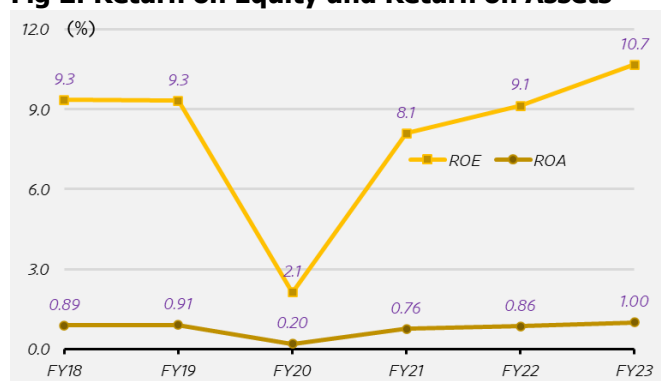
- Earnings and ROE.** A steady earnings CAGR in recent years has been difficult to determine due to earnings distortions caused by the Covid-19 pandemic. Regardless, CIMB's ROE has seen considerable improvement recently following the Group's major restructuring plan. Contributions from Indonesia are particularly strong, given the segment's high growth potential. In contrast, CIMB's Thai segment has been underperforming due to an unfavourable, competitive environment and suboptimal fundamentals.

**Fig 1: Core Net Profit**



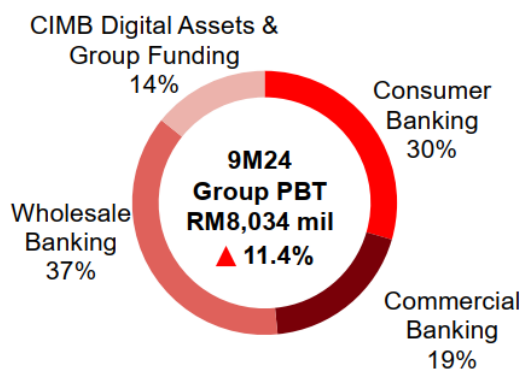
Source: CIMB

**Fig 2: Return on Equity and Return on Assets**



Source: CIMB

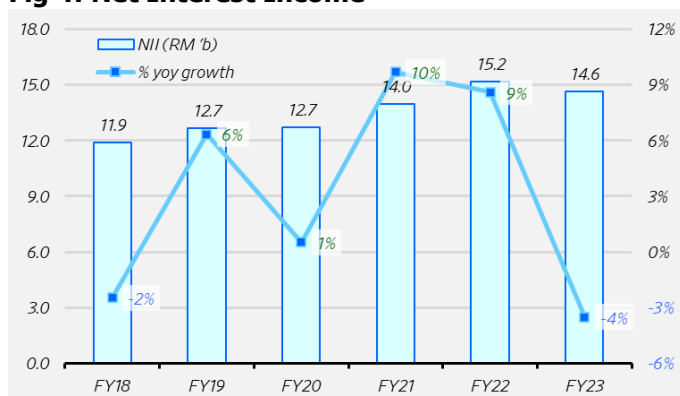
**Fig 3: PBT by Segment**



Source: CIMB

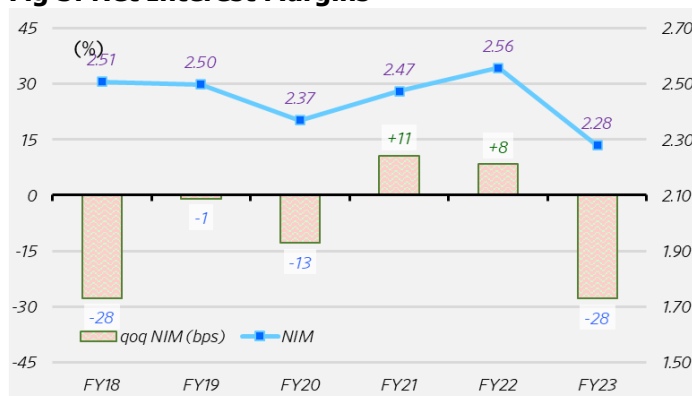
- **NII and NIM.** CIMB's NIM is moving roughly in line with the rest of the industry despite its sizeable regional exposure, particularly to Indonesia and Singapore. Although CIMB's current NIM situation is not the best, there is room for further optimisation, particularly in the Indonesian segment, which sees a very sharp CASA growth.
- Singaporean NIMs could see some downside pressure following a solid couple of years (as the positive effects from interest rate hikes are wearing out). Indonesia is also expected to see loan yield compression as larger banks aggressively pursue loans. Adverse interest rate movements do not help the Indonesian COF situation.

**Fig 4: Net Interest Income**



Source: CIMB

**Fig 5: Net Interest Margins**



Source: CIMB

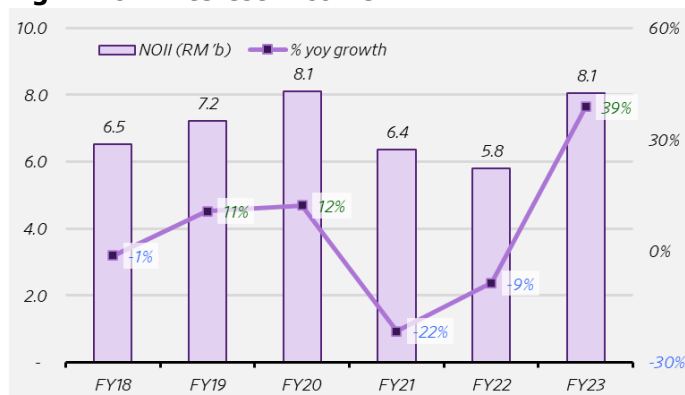
**Fig 6: NIMs by Geography**

Country (%)	3Q24	2Q24	9M24	9M23
Group	2.23	2.22	2.21	2.25
Malaysia	1.82	1.78	1.78	1.74
Indonesia^	4.07	4.22	4.16	4.52
Thailand^	2.32	2.34	2.27	2.64
Singapore	1.42	1.40	1.41	1.40

Source: CIMB

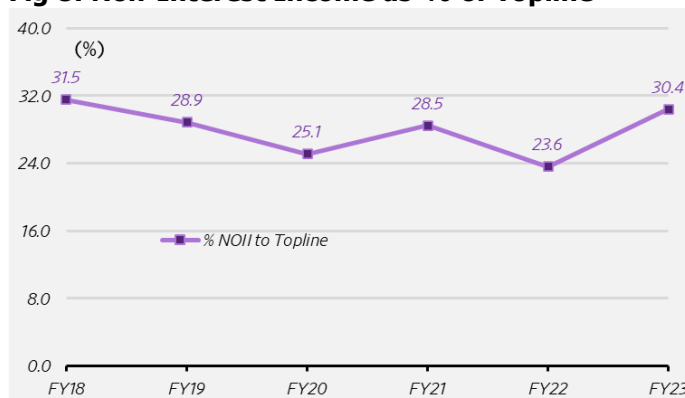
- **NOII.** NOII makes up a relatively large portion of CIMB's topline. It tends to be volatile due to a large reliance on non-fee income to NOII (which can be opportunistic) and the Indonesian region's NPL sales. With conducive market conditions to persist, FY25 should signify another solid year for CIMB's NOII. We believe that fee income will become the central focus of CIMB's next multi-year plan.

**Fig 7: Non-Interest Income**



Source: CIMB

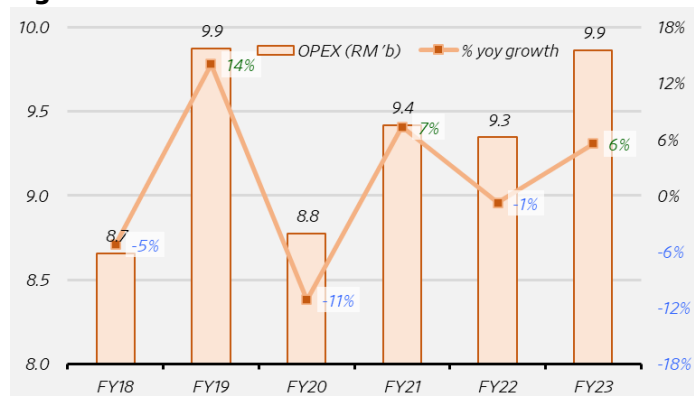
**Fig 8: Non-Interest Income as % of Topline**



Source: CIMB

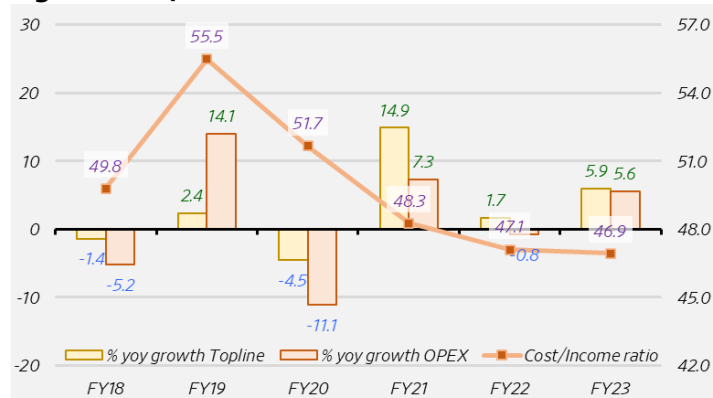
- **OPEX.** CIMB's cost/income ratio is still slightly on the higher side, but it has seen considerable improvement since the pandemic. This is largely due to management's intense kitchen sinking exercise, which significantly reduced CIMB's costs. Management believes there is further room for optimisation, but this will be limited.

**Fig 9: OPEX**



Source: CIMB

**Fig 10: Cost/Income ratio**

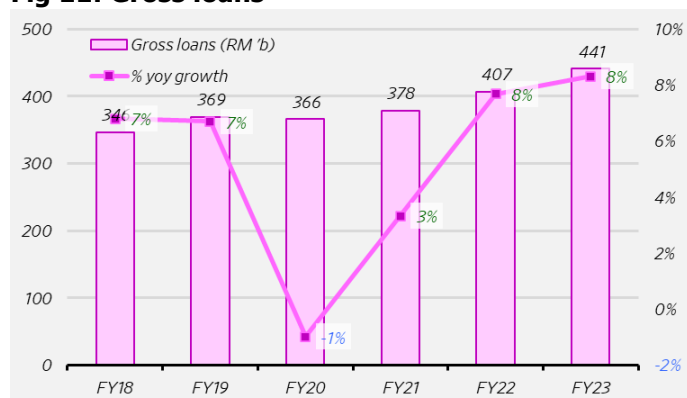


Source: CIMB

## Balance Sheet

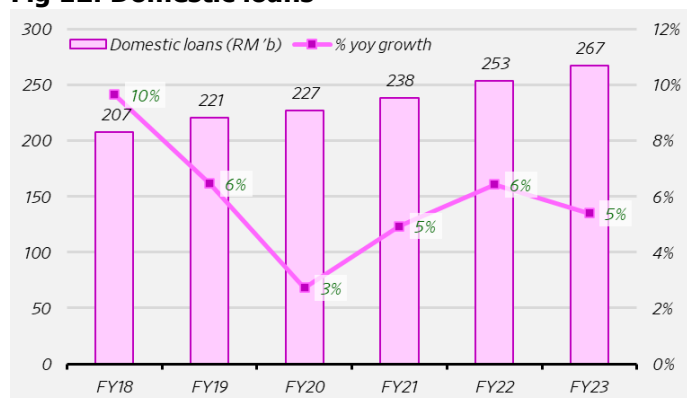
- **Loans.** CIMB's loan growth has been strong, though FY24's performance may be slightly weaker due to unfavourable market conditions in several regions. The Group has repeatedly stated that it prioritises profitability levels over acquiring market share should loan yields no longer be as attractive.
- While CIMB's domestic loans are growing roughly in line with industry rates, foreign loan performance can be mixed, though it is usually skewed towards the higher side. Overseas loan growth is usually strongly driven by largely Indonesian and Singaporean segments. There may be some drag from the Thailand segment as the Group continues to exit its commercial segment.

**Fig 11: Gross loans**



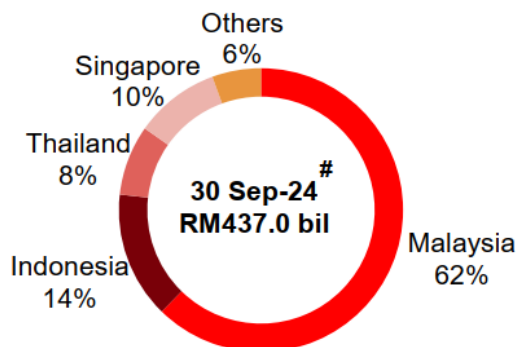
Source: CIMB

**Fig 12: Domestic loans**



Source: CIMB

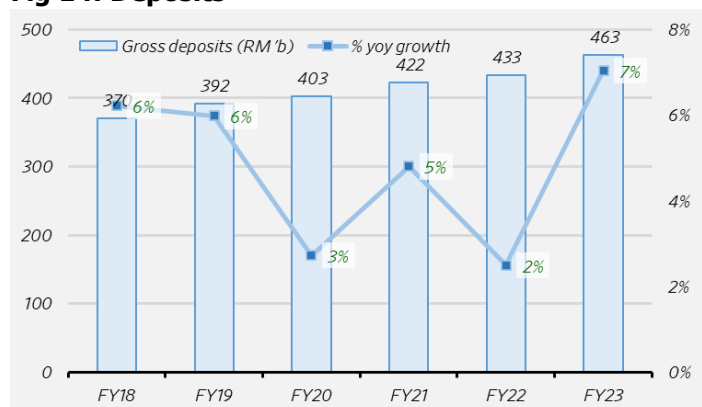
**Fig 13: Loans by Geography**



Source: CIMB

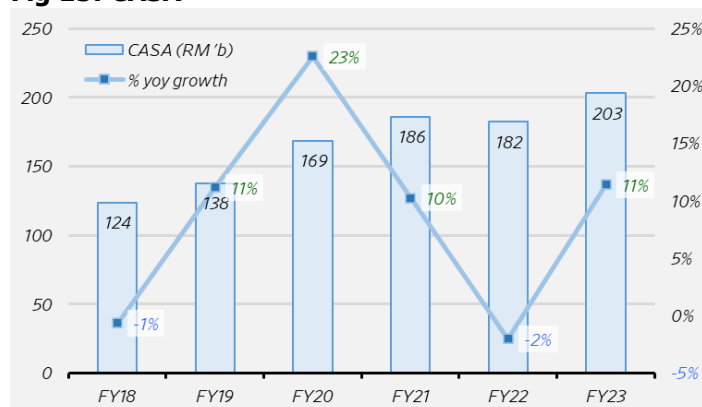
- Deposits, CASA and Liquidity.** CIMB's deposit growth has been somewhat lacklustre, as the Group has shed some of its pricier deposits to maintain adequate profitability. The Group's CASA ratio and growth are extremely high, largely due to the liquidity-rich environment of its overseas segments, particularly Indonesia, where its CASA ratio is currently 66.7%.

**Fig 14: Deposits**



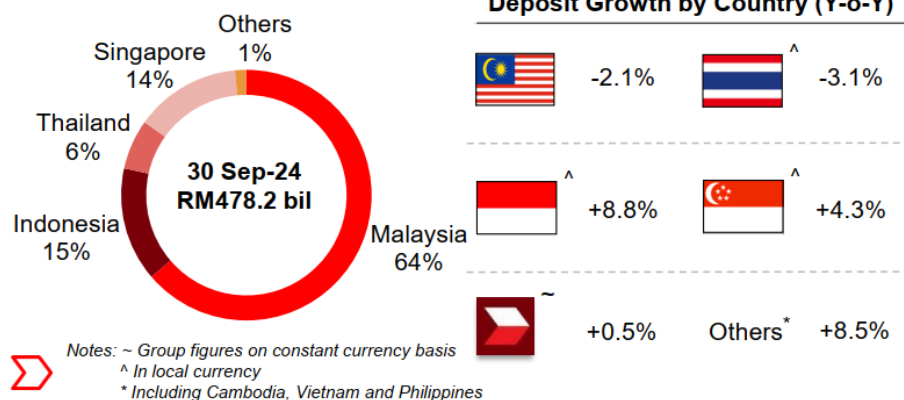
Source: CIMB

**Fig 15: CASA**



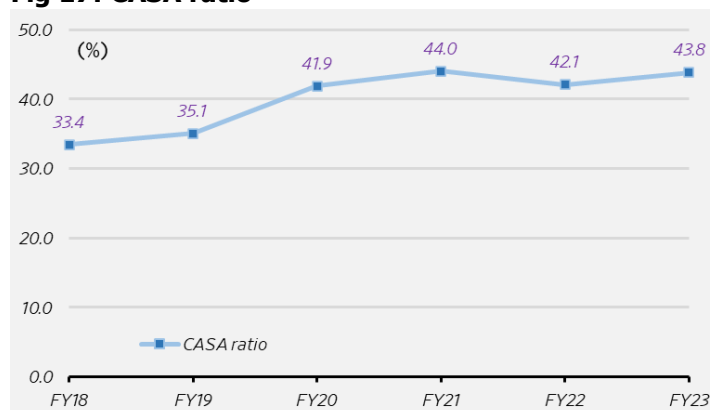
Source: CIMB

**Fig 16: Deposits by Geography**



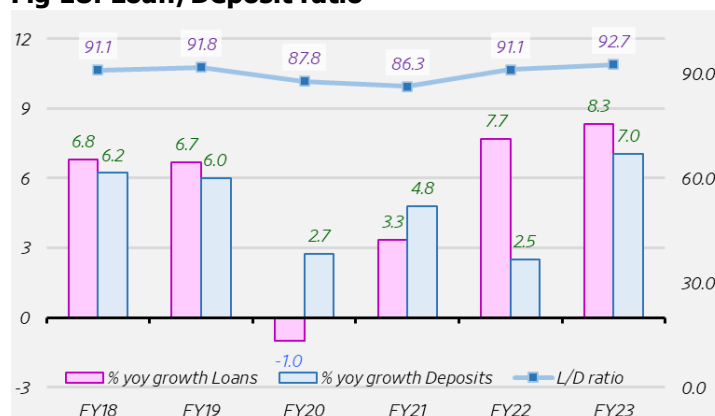
Source: CIMB

**Fig 17: CASA ratio**



Source: CIMB

**Fig 18: Loan/Deposit ratio**

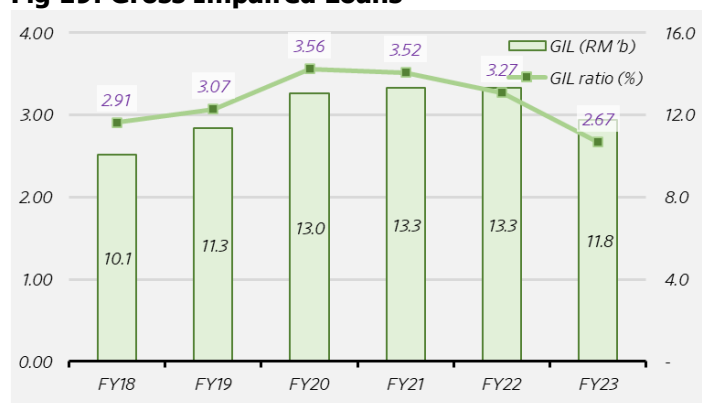


Source: CIMB

- **Asset quality and provisioning.** The Group has seen considerable improvement in asset quality over the pandemic as management has either fixed problematic loan segments (notably Indonesian and Singaporean commercial) or is exiting it entirely (Thailand commercial). As a result, CIMB's NCC profile is far better now, backed up by a higher LLC.

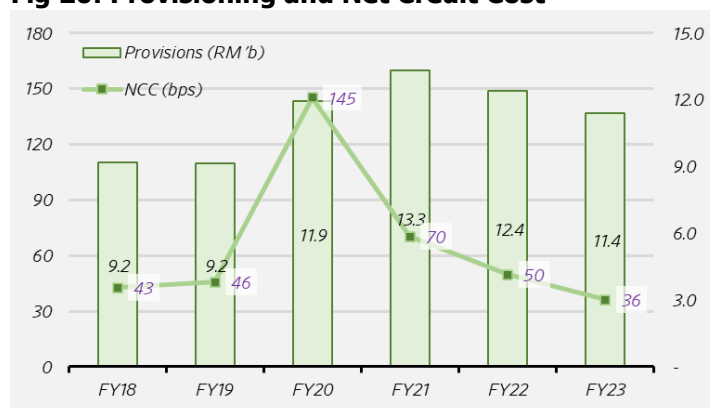


**Fig 19: Gross Impaired Loans**



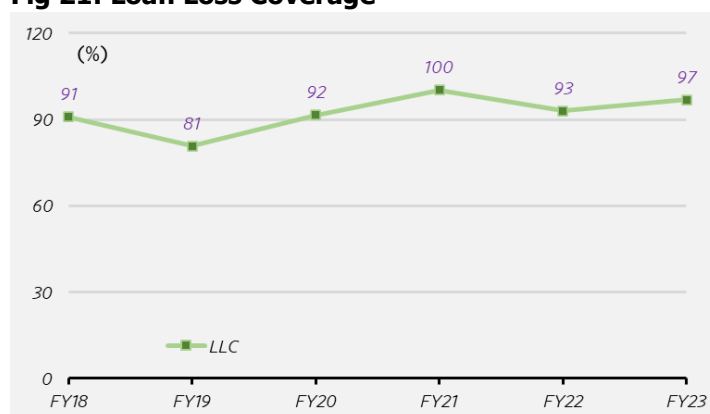
Source: CIMB

**Fig 20: Provisioning and Net Credit Cost**



Source: CIMB

**Fig 21: Loan Loss Coverage**

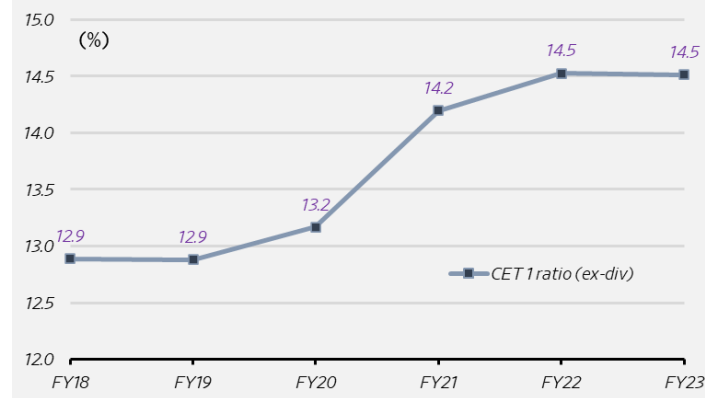


Source: CIMB

- Capital and dividends.** At 14.5%, CIMB's CET 1 ratio is rather high – even after the Group recently issued a special dividend to streamline its capital. The Group intends to reduce its CET 1 ratio to the 13.5% level eventually. However, don't expect this to be anytime soon, especially given the ongoing implementation of Basel III and other macroeconomic uncertainties.

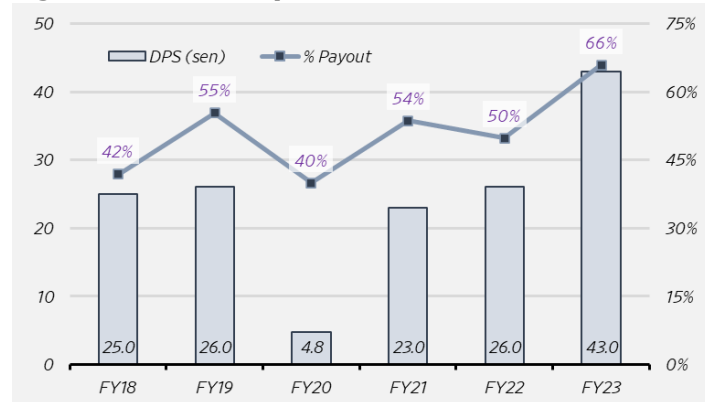
- CIMB's dividend has been successfully raised to the 55% level. Although its dividend yield is not the industry's highest, it remains at a respectable c.4% level.

**Fig 22: CET 1 ratio**



Source: CIMB

**Fig 23: Dividend Payout**

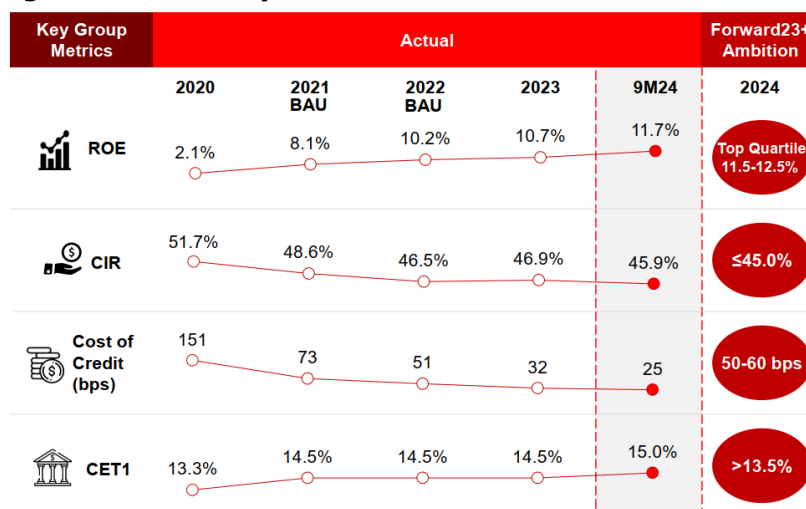


Source: CIMB

## Investment Highlights

- **Considerable improvement in ROE profile.** CIMB's ROE is one of the industry's best, with the Group consistently reporting values of >11% in the last three quarters. This comes at the tail end of the Group's Forward23+ plans, where the Group has undertaken notable initiatives to improve its profitability profile and overall attractiveness to investors.
- These include: (i) Restructuring several problematic loan segments while growing more higher-quality ones (particularly consumer), (ii) Improving asset quality and provisioning profile, (iii) Undergoing a considerable kitchen-sinking exercise to improve cost structure, (iv) Amping up regional presence, particularly in Indonesia and Singapore (the Group is also hinting at solid progress in its digital assets based in Vietnam and the Philippines), (v) Streamlining capital structure, and (vi) Increasing sustainable dividend payout.
- CIMB thinks there's still room for further improvement by (i) Turning around its Thai operations (progress has been made, but the project is far from completion), (ii) Shifting the focus back to fee income by amping its investment banking franchise, (iii) Further kitchen-sinking exercises, though further cost structure improvements may be more muted, and (iv) Further expanding its Digital Asset contributions. We await CIMB's next multi-year plan for clearer details on their future initiatives.

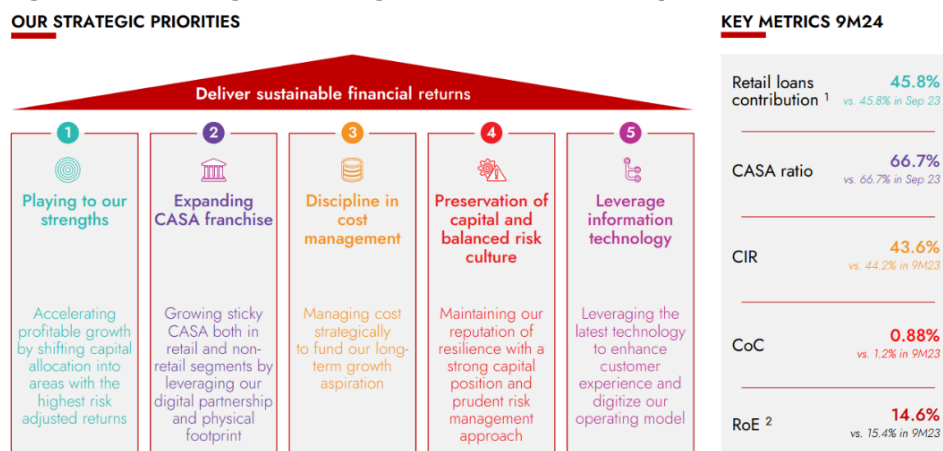
Fig 24: Dividend Payout



Source: CIMB

- **Proxy to the fast-growing Indonesian market.** CIMB stands out as the Malaysian bank with the highest exposure to the Indonesian market. CIMB Niaga, which manages the Group's Indonesian operations, is doing well for many reasons: (i) Its NIMs are far higher than the Group's (given their far superior CASA ratio), (ii) Its growing loans and deposits (particularly CASA), (iii) NPL sales provide a boost to NOII.
- As a result, CIMB Niaga's ROE is very high, which provides an overall uplift to the broader Group's figures. The main concern is asset quality, though this has considerably improved from a couple of years back, following a massive restructuring in the loan book and impairment management via NPL sales.

**Fig 25: CIMB Niaga's Strategic Initiatives and Key Metrics**



Source: CIMB

- **CIMB Thai is undergoing restructuring and will likely be the focus of the next multi-year plan.** CIMB Thai's operations have dragged overall performance, notably on loan growth. Despite some success with its wealth management business, CIMB Thai still faces issues, most notably in its autoloan and commercial portfolio. The Thai environment is also very challenging, with larger Thai banks reporting ROEs of low 8-9%.
- Management intends to act on present issues. This could imply a large restructuring in Thai operations or shifting capital to other areas with better ROE-generating potential. Further details will only emerge as part of CIMB's next multi-year plan – though we are optimistic of positive results, given management's past track record of success.

**Fig 26: Loan Growth by Segment**

Country	Year	Consumer		Commercial		Wholesale	
Malaysia	Dec-19	59%		14%		27%	
	Sep-24	61%	2% ▲	16%	2% ▲	23%	4% ▼
Singapore	Dec-19	25%		14%		61%	
	Sep-24	33%	8% ▲	12%	2% ▼	55%	6% ▼
Indonesia	Dec-19	27%		35%		38%	
	Sep-24	33%	6% ▲	27%	6% ▼	40%	2% ▲
Thailand	Dec-19	58%		12%		30%	
	Sep-24	64%	6% ▲	2%	10% ▼	34%	4% ▲
Group	Dec-19	50%		18%		32%	
	Sep-24	53%	3% ▲	17%	1% ▼	30%	2% ▼

Source: CIMB

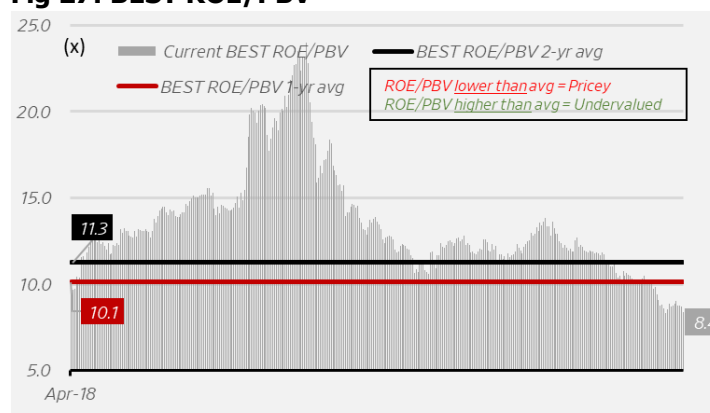
- **Stronger asset quality and provisioning profile.** CIMB's efforts to improve its asset quality have borne fruit. Its current GIL ratio is 2.34%, well below its pre-pandemic range of 2.90-3.40%. The Group has undergone a drastic loan book restructuring in previous years, reducing exposure to problematic segments or revamping it entirely. We've seen considerable improvement in all geographical segments.

- Aside from GIL ratio, CIMB is boasting considerable improvement in other metrics: (i) Its LLC has risen to >100%, from the pre-pandemic range of 70-80%, (ii) Its base NCC has been reduced to the 30-40bps level, which is considered healthy for its current GIL ratio level and high exposure to the Indonesian market. In addition to this, the Group is actively looking out for more levers to improve its asset quality (most notably, more consistency in NPL sales).

## Valuation & Recommendation

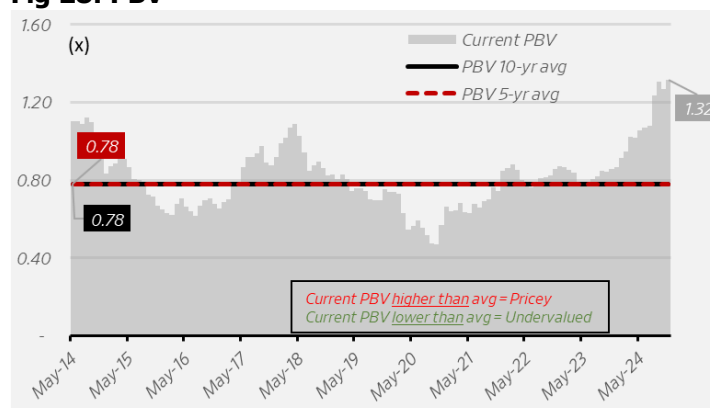
- We initiate coverage on CIMB with a **BUY** recommendation and a target price of **RM9.28** based on an FY25F PBV of 1.31x GGM-PBV valuation. (GGM Assumptions: FY25F ROE of 11.3%, LTG of 4.0%, & COE of 9.6%.)

**Fig 27: BEST ROE/PBV**



Source: CIMB

**Fig 28: PBV**



Source: CIMB

- We favour CIMB for its (i) Considerable improvements to ROE profile, (ii) Exposure to the fast-growing Indonesian market, (iii) Possible future revamp to underperforming CIMB Thai operations, reducing the drag to ROE, (iv) Superior asset quality and provisioning profile post-pandemic.

## Key Risks

- **NIM concerns, especially in overseas segments.** The NIM outlook in Singapore and Indonesia (to which CIMB is heavily exposed) is far from perfect – this could exert pressure on the Group’s overall margins in FY25.
- **Sharper growth in overheads.** Should CIMB’s next multi-year plan involve heavy restructuring or investment, we may see a spike in cost growth.
- **Highly susceptible to stressful periods.** Despite considerable improvement in asset quality, CIMB’s GIL ratio is still far higher than most peers, making it most susceptible to economic shocks or other periods of stress to customer’s debt-servicing ability.

## Financial Highlights

### Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest income	18,646	25,111	21,840	22,520	23,106
Interest expense	(7,016)	(14,027)	(9,120)	(9,120)	(9,120)
<b>Net interest income</b>	<b>11,630</b>	<b>11,084</b>	<b>12,720</b>	<b>13,400</b>	<b>13,986</b>
Islamic banking inc.	4,000	4,260	3,757	3,958	4,131
Other operating inc.	4,208	5,670	5,936	6,195	6,491
<b>Net income</b>	<b>19,838</b>	<b>21,014</b>	<b>22,414</b>	<b>23,552</b>	<b>24,608</b>
OPEX	(9,346)	(9,865)	(10,310)	(10,716)	(11,197)
<b>PPOP</b>	<b>10,492</b>	<b>11,149</b>	<b>12,103</b>	<b>12,836</b>	<b>13,412</b>
Loan allowances	(1,953)	(1,534)	(1,362)	(1,444)	(1,531)
Other allowances	(209)	(57)	(75)	(101)	(161)
JV & Associates	40	(17)	121	128	134
<b>PBT</b>	<b>8,371</b>	<b>9,541</b>	<b>10,787</b>	<b>11,419</b>	<b>11,854</b>
Tax & zakat	(2,778)	(2,379)	(2,697)	(2,855)	(2,963)
NCI	(153)	(181)	(202)	(214)	(222)
<b>Reported NP</b>	<b>5,440</b>	<b>6,981</b>	<b>7,888</b>	<b>8,350</b>	<b>8,668</b>
<b>Core NP</b>	<b>5,542</b>	<b>6,981</b>	<b>7,888</b>	<b>8,350</b>	<b>8,668</b>
Total NII	15,158	14,626	16,102	16,962	17,704
Total NOII	4,680	6,388	6,312	6,591	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	456,357	483,752	512,791
Other IEAs	9,751	9,708	10,873	12,177	13,639
Non-IEAs	58,897	57,590	61,169	67,053	75,025
<b>Total assets</b>	<b>666,721</b>	<b>733,572</b>	<b>767,303</b>	<b>804,460</b>	<b>844,339</b>
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
<b>Total liabilities</b>	<b>602,937</b>	<b>663,733</b>	<b>694,162</b>	<b>727,022</b>	<b>762,459</b>
Share capital	29,095	29,095	29,095	29,095	29,095
Reserves	33,397	39,232	42,486	46,703	51,063
<b>Shareholders' funds</b>	<b>62,491</b>	<b>68,327</b>	<b>71,581</b>	<b>75,798</b>	<b>80,157</b>
Perpetual pref. shares	200	200	200	200	200
NCI	1,093	1,312	1,360	1,440	1,523
<b>Total equity</b>	<b>63,784</b>	<b>69,839</b>	<b>73,141</b>	<b>77,438</b>	<b>81,880</b>
<b>Total L&amp;E</b>	<b>666,721</b>	<b>733,572</b>	<b>767,303</b>	<b>804,460</b>	<b>844,339</b>
Total IEAs	607,824	675,982	706,134	737,407	769,314
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

### Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Interest (%)</b>					
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
<b>Profitability (%)</b>					
<b>ROE</b>	<b>9.1</b>	<b>10.7</b>	<b>11.3</b>	<b>11.3</b>	<b>11.1</b>
ROA	0.9	1.0	1.1	1.1	1.1
NOII/Net income	23.6	30.4	28.2	28.0	28.1
Effective tax rate	33.2	24.9	25.0	25.0	25.0
Cost/Income	47.1	46.9	46.0	45.5	45.5
<b>Liquidity (%)</b>					
Loan/Deposit	91.1	92.7	92.8	92.7	92.6
CASA ratio	42.1	43.8	42.0	41.0	41.0
<b>Asset Quality (%)</b>					
GIL ratio	3.27	2.67	2.30	2.30	2.30
LLC ratio	93	97	100	100	100
LLC (w. reserves)	96	106	111	110	110
Net CC (bps)	50	36	30	30	30
<b>Capital (%)</b>					
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
<b>Growth (%)</b>					
Total NII	8.6	-3.5	10.1	5.3	4.4
Total NOII	-15.8	36.5	-1.2	4.4	4.8
Net income	1.7	5.9	6.7	5.1	4.5
OPEX	-0.8	5.6	4.5	3.9	4.5
Core NP	19.2	26.0	13.0	5.9	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
<b>Valuation metrics</b>					
Core EPS (sen)	51.8	65.3	73.8	78.1	81.1
Gross DPS (sen)	26.0	43.0	50.4	40.9	41.5
Div payout (%)	50	66	70	55	55
BVPS (RM)	5.8	6.4	6.7	7.1	7.5
Core P/E (x)	15.8	12.5	11.1	10.5	10.1
<b>Div yield (%)</b>	<b>3.2</b>	<b>5.3</b>	<b>6.1</b>	<b>5.0</b>	<b>5.1</b>
P/BV (x)	1.4	1.3	1.2	1.2	1.1

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## RESEARCH RECOMMENDATION FRAMEWORK

### STOCK RECOMMENDATIONS

**BUY:** Total returns\* are expected to exceed 10% within the next 12 months.

**HOLD:** Total returns\* are expected to be within +10% to – 10% within the next 12 months.

**SELL:** Total returns\* are expected to be below -10% within the next 12 months.

**TRADING BUY:** Total returns\* are expected to exceed 10% within the next 3 months.

**TRADING SELL:** Total returns\* are expected to be below -10% within the next 3 months.

\*Capital gain

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry defined by the analyst is expected to exceed 10% within the next 12 months.

**NEUTRAL:** The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

**UNDERWEIGHT:** The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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