



## Company report

## CIMB GROUP

(CIMB MK EQUITY, CIMB.KL)

19 Oct 2020

# Refined Forward 23+ strategy to focus on lifting ROE

## HOLD

(Maintained)

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Rationale for report: Company update

## Investment Highlights

Price RM3.05  
Fair Value RM3.10  
52-week High/Low RM5.40/RM3.03

## Key Changes

Fair value ⇄  
EPS ⇄

YE to Dec	FY19	FY20F	FY21F	FY22F
Total income (RM mil)	17,795.9	16,823.4	17,391.6	18,473.5
Core net profit (RM mil)	4,772.5	1,990.0	2,873.1	4,277.0
FD Core EPS (sen)	49.2	20.5	29.6	44.1
FD Core EPS growth (%)	2.4	(58.3)	44.4	48.9
Consensus Net Profit (RM mil)	-	2,166.0	3,667.0	4,690.0
DPS (sen)	26.0	11.0	15.8	23.6
BV/share (RM)	5.81	5.98	6.17	6.47
PE (x)	6.2	14.9	10.3	6.9
Div yield (%)	7.4	3.3	4.8	7.1
P/BV (x)	0.5	0.5	0.5	0.5
ROE (%)	8.8	3.5	4.9	7.0

## Stock and Financial Data

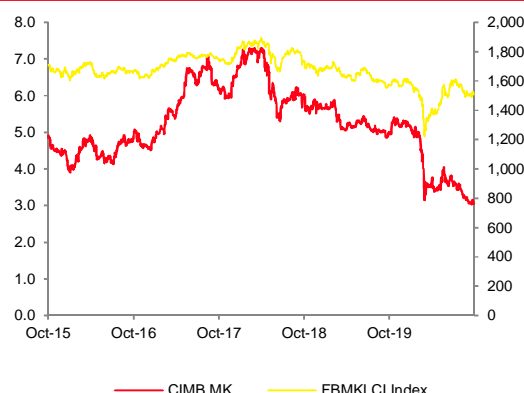
Shares Outstanding (million) 9,706.0  
Market Cap (RM mil) 29,603.3  
Book Value (RM/share) 5.81  
P/BV (x) 0.5  
ROE (%) 8.8

Major Shareholders  
Khazanah Nasional Bhd (23.8%)  
Employees Provident Fund (13.1%)

Free Float 48.1  
Avg Daily Value (RM mil) 36.6

## Price performance

	3mth	6mth	12mth
Absolute (%)	(15.5)	(16.0)	(39.0)
Relative (%)	(10.3)	(21.4)	(36.3)



- We maintain HOLD on CIMB Group Holdings (CIMB) with an unchanged fair value of RM3.10/share based on a FY21 ROE of 4.9%, leading to a P/BV of 0.5x. We make no changes to our earnings estimates.
- Management provided a briefing last Friday on the refined group strategy known as Forward 23+.
- Despite its ranking as the 5<sup>th</sup> largest Asean universal bank by asset, the 2<sup>nd</sup> and 6<sup>th</sup> largest in Malaysia and Indonesia respectively, the group still lags its peers in terms of ROE. CIMB's ROE plummeted to 8.5% in 2019 from 15.0% in 2009.
- Besides ROE, management has identified other areas which the group needs to improve on. These included portfolio allocation where low return businesses had been over invested while higher return businesses were under invested. Additionally, the group's CI ratio at 55.5% (based on reported numbers) was higher than the peer average while its credit cost was elevated at 132bps in 1H20.
- CIMB has RM9.7bil in total of goodwill and intangible assets contributed by its past acquisitions of banks and securities firms which lock up its capital. We understand that the dual holding company structure also has impacted the group's efficiency.
- Another challenge was the decline in Malaysia's net promoter score (NPS) due to the downtime for CIMB Clicks. The group has managed to arrest the issue, raising the uptime on CIMB Clicks to 98.7% in 1H20 from 94.7% in 2019.
- The group has been focusing on growing asset and revenue rather than earnings. Also, management recognised the need to invest in technology to further digitalise, provide greater stability and better analytics.
- The recalibrated Forward 23+ has been extended to 2024 due to the Covid-19 pandemic. The refined strategy focuses on achieving the ranking of a top quartile bank in terms of ROE (ROE of around 12–13%), lowering CI ratio to 45.0% and attaining a CET1 ratio of 13.0% by 2024.
- The group aims to reshape its portfolio by accelerating profitable growth segments while fixing and turning around those underperforming businesses.

Exhibit 3 depicts the group's plans to reshape the group's portfolio by county.







- To achieve higher cost efficiency, it will tighten the management of expenses, reset cost base, and raise productivity. Also, it intends to further digitalise, automate processes, eliminate duplication as well as streamlining the group structure and operating model. In FY20, the group aims to reduce its operating cost by RM500mil (-5%). So far, in 1H20, operating expenses have been lowered by 3.3% YoY. Between 2020 and 2024, CIMB is aiming for a sustainable cost growth of 2–3 per annum.
- For Forward 23+, the group will be more selective on areas to compete in as shown in Exhibit 2. In Malaysia, the group will target all segments as a universal bank. Meanwhile, in Indonesia, it aims to be a focused universal bank competing in the consumer, SME and high-quality wholesale space. In Singapore, the focus will be on Asean wholesale segment and to be the preferred niche player in commercial business. The group also seeks to be a focused player in Thailand, focusing on Asean wholesale business and to become a niche player in consumer finance.
- While the plans on cost management looks to be positive over the medium term, the achievement of a higher ROE target by 2024 will still be largely dependent on the containment of the Covid-19 pandemic and recovery of regional economies. A further prolonged duration of the pandemic will impact both the revenue and provisions of the group, and this could delay the achievement of the objectives/targets of the refined strategy.

## EXHIBIT 1: KEY PILLARS OF FORWARD 23+ STRATEGY
















































Source: Company

## EXHIBIT 2: MARKETS AND SEGMENTS OF FOCUS

	<b>Universal Bank:</b> Across all segments
	<b>Focused Universal Bank:</b> Consumer and SME; high quality wholesale
	<b>ASEAN focus:</b> ASEAN wholesale and Preferred; niche in commercial
	<b>Focused player:</b> ASEAN wholesale and Preferred; niche in consumer finance
	<b>Universal community focused bank</b>
	<b>Selective investments:</b> Digital attacker leveraging on partnerships to create a hedge on future

Source: Company

## EXHIBIT 3: PORTFOLIO THAT NEEDS TO BE RESHAPED

 Malaysia	 Indonesia	 Singapore	 Thailand	 Cambodia	 Digital
 SME/ Commercial	 Consumer & SME	 Wealth Management	 Wealth Management	 SME/ Commercial	 TnG & TNGD
 Consumer	 Wealth Management	 T&M	 Consumer	 Consumer	 Philippines
 Wealth Management	 T&M	 Corporate	 T&M	 Wealth Management	 Vietnam
 Transaction banking	 Transaction banking	 Commercial	 Corporate <sup>1</sup>	 Transaction banking	
 T&M	 COBA	 ASEAN transaction banking	 Transaction banking	 T&M	
 Corporate	 COMBA	 Consumer	 Commercial	 Corporate	
 <sup>1</sup> Focused on ASEAN	 Double down	 Grow	 Fix and turnaround	 Exit	 Growth through partnership

Source: Company

## EXHIBIT 4: STRATEGY ON AREAS TO RESHAPE

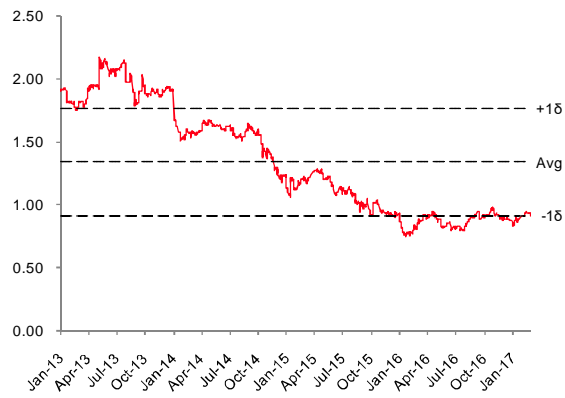
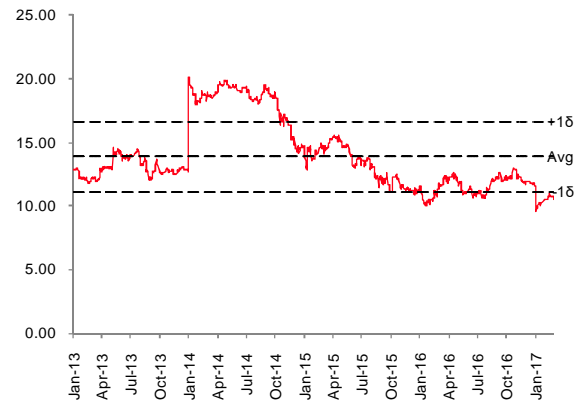


Source: Company

## EXHIBIT 5: OBJECTIVES AND TARGETS

2022 Objectives	2024 Targets	Aspiration
<b>1 Cost reduction</b> Cost take out of RM800mil - RM1bil	<b>1 ROE</b> Top Quartile*	<b>1 Building a great sustainable organisation</b>
<b>2a Winning in Malaysia</b> Top 2 bank in market share in focused segments	<b>2 CIR</b> 45%	<b>2 Top 2 Malaysian Banking Group by ROE</b>
<b>2b Winning in Indonesia</b> Grow 1.5x Market in focused segments Turnaround COBA and COMBA	<b>3 CET 1</b> 13%	<b>3 Best performing ASEAN FI by market cap growth</b>
<b>2c Growing sustainable franchise in SG and TH</b>	<b>4 NPS</b> Top Quartile	
<b>3 Performance Culture and Disciplined Execution</b>	<b>5 DJSI<sup>1</sup> Ranking</b> 75 <sup>th</sup> Percentile	
	<b>6 Talent</b> High Performing Organisation	

Source: Company

**EXHIBIT 6: PB BAND CHART****EXHIBIT 7: PE BAND CHART**



## EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Net interest income	9,634.4	10,083.9	9,481.1	9,643.8	9,870.3
Non-interest income	5,137.4	4,671.3	3,919.0	3,945.5	4,351.3
Islamic banking income	2,610.2	3,040.7	3,423.3	3,802.3	4,251.9
<b>Total income</b>	<b>17,382.0</b>	<b>17,795.9</b>	<b>16,823.4</b>	<b>17,391.6</b>	<b>18,473.5</b>
Overhead expenses	(8,655.8)	(9,872.9)	(9,084.6)	(9,043.6)	(8,959.6)
Pre-provision profit	8,726.1	7,923.0	7,738.8	8,348.0	9,513.8
Loan loss provisions	(1,432.7)	(1,638.8)	(4,359.4)	(3,709.7)	(2,327.3)
Impairment & others	(127.1)	(340.0)	(481.3)	(810.9)	(1,467.0)
Associates	34.3	30.7	28.6	26.2	16.8
<b>Pretax profit</b>	<b>7,200.7</b>	<b>5,974.8</b>	<b>2,926.7</b>	<b>3,853.6</b>	<b>5,736.3</b>
Tax	(1,537.3)	(1,519.7)	(898.2)	(924.9)	(1,376.5)
Minority interests	(79.8)	104.5	(38.5)	(55.6)	(82.8)
<b>Net profit</b>	<b>5,583.5</b>	<b>4,559.7</b>	<b>1,990.0</b>	<b>2,873.1</b>	<b>4,277.0</b>
Core net profit	4,492.1	4,772.5	1,990.0	2,873.1	4,277.0
Balance Sheet (RMmil, YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Cash & deposits with FIs	35,528.9	37,765.1	37,179.5	52,944.3	52,403.0
Marketable securities	125,924.6	137,148.5	144,792.2	152,324.1	161,701.6
<b>Total current assets</b>	<b>161,453.6</b>	<b>174,913.5</b>	<b>181,971.7</b>	<b>205,268.4</b>	<b>214,104.6</b>
Net loans & advances	337,148.3	360,340.1	363,369.9	370,967.2	388,048.8
Statutory deposits	nm	nm	nm	nm	nm
Long-term investments	8,139.2	11,500.0	12,714.0	14,447.9	16,888.9
Fixed assets	2,348.9	2,442.3	2,487.5	2,638.3	2,745.1
Intangible assets	9,388.6	10,318.6	10,318.6	10,318.6	10,318.6
Other long-term assets	15,610.6	13,731.2	15,965.5	16,723.2	15,731.6
<b>Total LT assets</b>	<b>372,635.5</b>	<b>398,332.1</b>	<b>404,855.5</b>	<b>415,095.2</b>	<b>433,732.9</b>
<b>Total assets</b>	<b>534,089.1</b>	<b>573,245.7</b>	<b>586,827.4</b>	<b>620,363.7</b>	<b>647,837.5</b>
Customer deposits	371,962.4	395,798.4	405,575.1	418,912.7	443,230.9
Deposits of other FIs	20,232.9	23,666.7	22,198.4	23,070.7	24,091.9
Subordinated debts	13,482.3	13,520.9	13,454.1	13,772.7	13,869.9
Hybrid capital securities	16,936.8	18,425.2	17,893.9	18,354.5	19,612.6
Other liabilities	58,886.8	64,365.3	68,521.4	85,201.4	83,086.9
<b>Total liabilities</b>	<b>481,501.1</b>	<b>515,776.6</b>	<b>527,642.9</b>	<b>559,312.0</b>	<b>583,892.1</b>
Shareholders' funds	51,574.3	56,437.2	58,080.9	59,913.4	62,753.1
Minority interests	1,013.7	1,031.9	1,103.5	1,138.3	1,192.3
Key Ratios (YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Total income growth (%)	(1.4)	2.4	(5.5)	3.4	6.2
Pre-provision profit growth (%)	2.7	(9.2)	(2.3)	7.9	14.0
Core net profit growth (%)	1.2	6.2	(58.3)	44.4	48.9
Net interest margin (%)	2.5	2.5	2.3	2.4	2.4
Cost-to-income ratio (%)	49.8	53.0	54.0	52.0	48.5
Effective tax rate (%)	21.3	25.4	30.7	24.0	24.0
Dividend payout (%)	50.0	55.3	50.0	50.0	50.0
Key Assumptions (YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Loan growth (%)	6.8	6.7	2.0	3.0	5.0
Deposit growth (%)	6.4	6.4	2.5	3.3	5.8
Loan-deposit ratio (%)	90.6	91.0	89.6	88.6	87.6
Gross NPL (%)	2.9	3.1	3.6	3.8	3.3
Net NPL (%)	0.3	0.6	1.1	1.3	0.9
Credit charge-off rate (%)	0.4	0.5	1.2	1.0	0.6
Loan loss reserve (%)	91.3	80.7	99.7	116.8	145.4

Source: Company, AmlInvestment Bank Bhd estimates

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