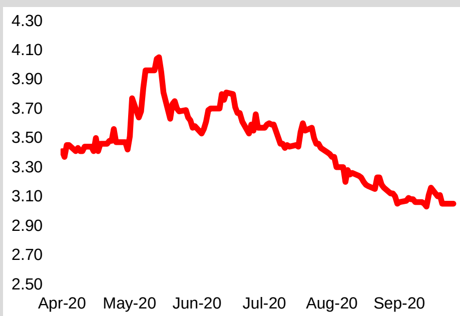
CIMB GROUP HOLDINGS BERHAD *Neutral*

DESCRIPTION

Malaysia's second largest banking group, with complete ASEAN footprint

12-Month Target Price	RM3.30
Current Price	RM3.05
Expected Return	8.2%
Market	Main
Sector	Financials
Bursa Code	1023
Bloomberg Ticker	CIMB MK
Shariah-Compliant	No

SHARE PRICE CHART



52 Week Range (RM)	3.03 – 5.40
3-Month Average Vol ('000)	11,046.9

SHARE PRICE PERFORMANCE

	1M	3M	12M
Absolute Returns	-5.6	-16.9	-36.7
Relative Returns	-3.3	-10.3	-36.3

KEY STOCK DATA

Market Capitalisation (RMm)	30,265
No. of Shares (m)	9,923

MAJOR SHAREHOLDERS

	%
Khazanah Nasional	27.2
Employees Provident Fund	16.4
Kumpulan Wang Persaraan	7.0

Ching Weng Jin
T 603 2268 3000
F 603 2268 3014
E research@publicinvestbank.com.my

Forward23+

The Group unveiled a revised version of its Forward23 growth initiative dubbed Forward23+ which, among others, identifies profitable businesses to grow further and underperforming areas to address. The ultimate aim is to build a higher-performing sustainable business and organization toward becoming a top quartile ASEAN bank. We are encouraged by the initiatives unveiled, though hold court on making further assessments pending delivery of results at key milestones. It is nonetheless refreshing to note the Group's candor in recognizing what needs to be done and laying out steps to address them. Near-term prospects of the Group will continue to be weighed by asset quality concerns however, particularly in Singapore and Indonesia, amid challenging operating conditions. Our ***Neutral*** call is retained with an unchanged target price of RM3.30.

§ **Portfolio allocation.** It has been identified that the Group over-invests in low-return businesses, while under-investing in higher-return ones. To address this, growth in certain focus areas will be accelerated. Current and savings accounts (CASA) growth will be targeted to strengthen the funding base, non-interest income growth will be improved through greater cross-selling initiatives. Geographically, the Group aims to be a focused player in the Singaporean (commercial) and Thai (consumer finance) markets, while improving its corporate and commercial franchises in in Indonesia. Further investments will be put into the wholesale (intra-ASEAN) and transaction banking, as well as the wealth management businesses.

§ **Cost.** The issue remains a sore point, as cost-income ratios remain one of the highest across ASEAN banks despite numerous efforts in the past to address this. With a targeted reduction of between RM800m to RM1bn cumulatively by 2022 (of which ~RM500m has already been achieved this year) , various levers have been identified toward achieving the aim – digitizing and automating, eliminating duplication and streamlining structure/operation model, increasing productivity, tightening expense management and resetting its cost base. While spending on its technology infrastructure will continue, it will nonetheless be on innovating and strengthening digital presence and analytics. Internal capabilities will also be built.

§ **Credit management.** Asset quality has also been an ongoing issue, caused by recurring high provisions. While the Group is amongst top in class in Malaysia, Indonesia and Singapore have been particular sources of pain in recent times. Going forward, focus in Indonesia will be on the consumer and SME, as well as high-quality wholesale businesses. Singapore will see the wealth management business being stressed on, and the treasury/markets business grown.

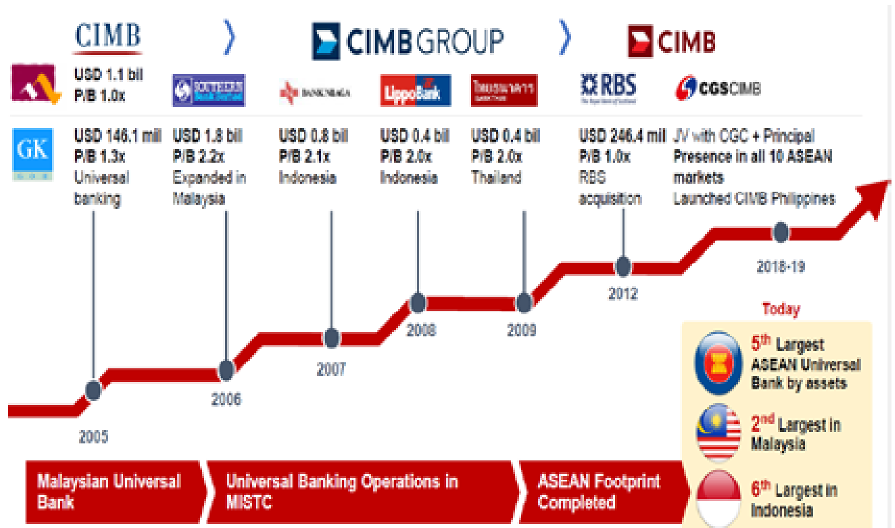
§ **Capital lock-up.** Through years of merger and acquisition activities (Figure 1), goodwill and intangible asset build-up has locked-up its capital base. As at 30 June, 2020, this has swelled to RM9.7bn. Management indicated that an RM3bn write-off will provide an estimated 50bps (0.5%) uplift to its return on equity (ROE). The issue will be addressed progressively so as not to startle markets and rattle investor confidence, but will nonetheless be an exercise undertaken in the coming years.

§ **Customer-centricity.** Going forward, customers should come to expect a >99.95% uptime of its digital channels, market-leading turnaround times as well as value-adding and competitive products and services, among others.

- **Short-term (2022 objectives):**
  - *Cost reduction:* Take out of RM800m to RM1bn
  - *Winning in Malaysia***:** Top 2 bank in market share in focused segments
  - *Winning in Indonesia***:** Grow 1.5x market in focused segments, while turning around corporate and commercial businesses
  - *Growing sustainable franchise in Singapore and Thailand*
  - *Performance culture and disciplined execution*

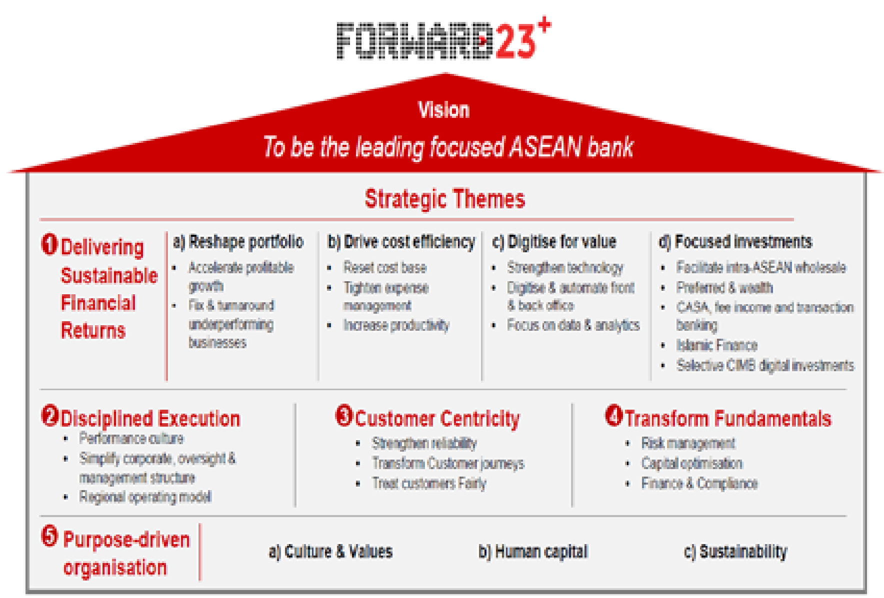
- **Medium term (2024* targets):** * extended a year due to Covid-19
  - *Return on Equity:* Top quartile (near-term target is 12% to 13%)
  - *Cost-to-Income ratio:* 45% (currently >50%)
  - *Tier-1 Capital:* 13%
  - *Net Promoter Score (NPS):* Top Quartile
  - *Dow Jones Sustainability Index Ranking*: 75th Percentrile
  - *Talent:* High performing organization

Figure 1: Evolution of CIMB Group Holdings



Source: Company

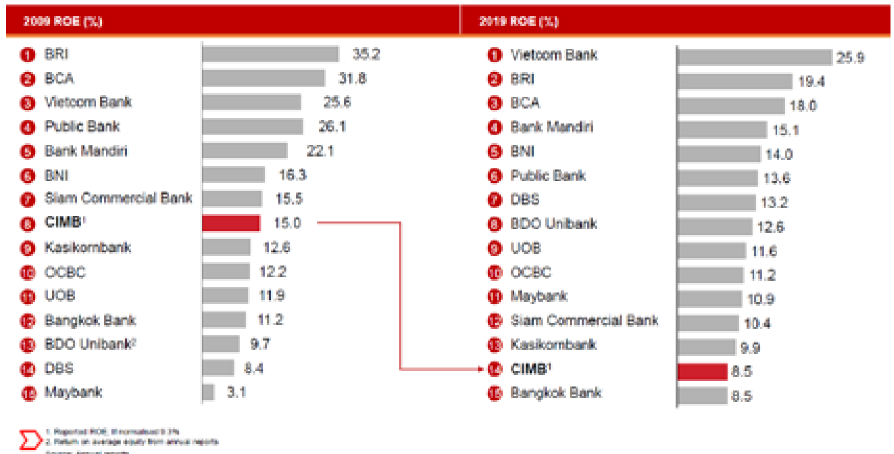
Figure 2: Snapshot of Forward 23+



Source: Company

- **Return on Equity (ROE):** This will be the underlying factor which will determine business direction in the near to medium term as the Group works toward its Forward23+ targets. CIMB Group will transit from an asset growth to an earnings growth model, with the explicit aim of getting into ASEAN's top quartile by 2024. The Group's 8.5% ROE as at 2019 is some way off ASEAN's top few (Vietcom Bank – 25.9%, Bank Rakyat Indonesia – 19.4%, Bank Central Asia – 18.0%, Bank Mandiri – 15.1%), though not an impossible task. Near-term target (2022) is between 12% and 13%.

Figure 3: ROE – ASEAN peers



Source: Company

Figure 4: ROE Trajectory

Source: Company

KEY FORECAST TABLE (RM m)

FYE Dec	2018A*	2019A*	2020F	2021F	2022F	CAGR
Operating Income	16,290.6	17,544.1	17,192.4	17,493.3	17,881.6	2.4%
Gross Op. Profit	7,634.7	7,671.2	7,603.4	7,675.2	7,826.1	0.6%
Pre-tax Profit	7,200.7	5,974.8	2,702.0	4,549.7	5,387.2	-7.0%
Net Profit (reported)	5,583.5	4,559.7	1,931.8	3,323.9	3,954.3	-8.3%
EPS (Sen)	58.4	47.7	20.2	34.8	41.3	-8.3%
P/E (x)	5.2	6.4	15.1	8.8	7.4	
DPS (Sen)	25.1	22.9	9.7	17.4	20.7	
Dividend Yield (%)	8.2%	7.5%	3.2%	5.7%	6.8%	

Source: Company, PublicInvest Research estimates Note: 2018 includes disposal gains, 2019 includes transformation costs and intangible asset write-offs

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Operating Income	16,290.6	17,544.1	17,192.4	17,493.3	17,881.6
Gross Operating Profit	7,634.7	7,671.2	7,603.4	7,675.2	7,826.1
Credit Impairment Charge	-1,559.7	-1,978.8	-4,933.6	-3,159.3	-2,474.4
Net Operating Profit	6,075.0	5,692.4	2,669.8	4,515.9	5,351.7
Other Gains / (Losses)	1,091.4	251.8	0.0	0.0	0.0
Associates	34.3	30.7	32.2	33.8	35.5
Pre-tax Profit	7,200.7	5,974.8	2,702.0	4,549.7	5,387.2
Income Tax	-1,537.3	-1,519.7	-664.7	-1,119.2	-1,325.2
Effective Tax Rate (%)	21.3	25.4	24.6	24.6	24.6
Minorities	-79.8	104.5	-105.5	-106.6	-107.6
Net Profit (reported)	**5,583.5**	**4,559.7**	**1,931.8**	**3,323.9**	**3,954.3**
Growth					
Operating Income	-7.4%	7.7%	-2.0%	1.8%	2.2%
Gross Operating Profit	-9.7%	0.5%	-0.9%	0.9%	2.0%
Net Profit	24.8%	-18.3%	-57.6%	72.1%	19.0%

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Customer Loans (net of provisions)	337,148.3	360,340.1	366,031.5	376,347.3	387,674.3
Trading and Investment Assets	101,640.1	111,289.2	117,553.8	116,853.7	120,480.7
Goodwill and Intangible Assets	9,388.6	9,542.7	9,365.3	9,365.3	9,365.3
Other Assets	85,912.1	92,073.7	82,012.4	90,562.1	94,948.2
Total Assets	**534,089.0**	**573,245.7**	**574,962.9**	**593,128.4**	**612,468.5**
Customer Deposits	370,193.1	392,349.5	396,693.9	408,559.9	420,781.8
Interest-bearing Debt	36,504.1	42,211.8	36,504.1	36,504.1	36,504.1
Other Liabilities	74,803.9	81,215.3	82,258.5	85,127.6	88,183.8
Minority Interests	1,013.7	1,031.9	1,137.4	1,244.0	1,351.6
Total Liabilities	**482,514.7**	**516,808.5**	**516,594.0**	**531,435.5**	**546,821.3**
Shareholders' Equity	51,574.3	56,437.2	58,369.0	61,692.9	65,647.2
Total Equity and Liabilities	**534,089.0**	**573,245.7**	**574,962.9**	**593,128.4**	**612,468.5**

Source: Company, PublicInvest Research estimates

PER SHARE DATAS AND RATIOS

FYE Dec	2018A	2019A	2020F	2021F	2022F
Book Value Per Share	5.37	5.88	6.08	6.43	6.84
NTA Per Share	4.39	4.88	5.10	5.45	5.86
EPS (Sen)	58.4	47.7	20.2	34.8	41.3
DPS (Sen)	25.1	22.9	9.7	17.4	20.7
Payout Ratio (%)	43.0	48.0	48.0	50.0	50.0
ROA (%)	1.1	0.8	0.3	0.6	0.7
ROE (%)	11.2	8.5	3.4	5.6	6.2

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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Published and printed by:

PUBLIC INVESTMENT BANK BERHAD (20027-W)
9th Floor, Bangunan Public Bank
6, Jalan Sultan Sulaiman
50000 Kuala Lumpur
T 603 2268 3000
F 603 2268 3014
Dealing Line 603 2268 3129