midf RESEARCH

31 May 2018 | 1QFY18 Results Review

CIMB Group Holdings Bhd

On track thus far

***Maintain* BUY**

***Adjusted* Target Price (TP): RM7.85 (from RM7.80)**

INVESTMENT HIGHLIGHTS

- **Within expectations. Earnings growth driven by lower OPEX and provisions. Asset quality stable**
- **Disappointing NII due to NIM compression in Indonesia**
- **However, NOII from gains in CSI sale provided support**
- **Loans and deposits growth affected by forex. Consider robust if taken on normalised terms**
- **Impact of MFRS 9 manageable**
- **Maintaining forecast**
- **Maintain BUY with adjusted TP of RM7.85 (from RM7.80) as rollover our valuation to FY19**

Within expectations. The Group posted 1QFY18 earnings growth of +10.6%yoy. However, this was within expectations as it came in at 22.9% and 28.8% of ours and consensus' expectations respectively. The drivers for the Group's earnings growth were lower OPEX and provisions.

Cost management continued to yield result. OPEX fell -6.8%yoy improving CI ratio to 49.8% from 52.6% in 1QFY17. Personnel, establishment, marketing and admin & general expenses declined by -2.4%yoy, -16.4%yoy, -12.1%yoy and -5.6%yoy to RM1.25b, RM485m, RM58m and RM352m respectively. Besides the overall cost management efforts, deconsolidation of CIMB Security International (CSI) also resulted in cost reduction. Recall, the Group sold 50% of its stake in CSI to China Galaxy.

Lower loan provisions main contributor to lower provisions. Loans provisions declined -5.4%yoy to RM401m due to improvements in Consumer and Commercial banking at -52.1%yoy to RM134m and -14.3%yoy to RM108m respectively. Asset quality was also stable with GIL ratio at 3.2%.

Disappointing NII... NII fell -3.5%yoy due to the combination of NIM compression in Indonesia and flattish gross loans growth of +0.5%yoy to RM323.1b. However, the OPR hike in Malaysia had led to a sequential quarter improvement in NIM by +4bps qoq. In addition, we understand that the slower loans growth was due to forex effect as normalised gross loans grew +5.3%yoy with Malaysia especially registering strong growth of +7.9%yoy to RM195.2b. It was mainly contributed by mortgages which expanded +10.7%yoy.

...but moderated by NOII. For 1QFY18, NOII grew +3.8%yoy. This included the gain from the CSI stake sale of RM152m. Discounting one-off gains in 1QFY17 and 1QFY18, NOII would have declined by -8.0%yoy to RM1.14b. However, this was due to unrealised losses from financial assets at FVTPL of RM388.5m.

RETURN STATS	
Price (30 May 2018)	RM5.90
Target Price	RM7.85
Expected Share Price Return	+33.1%
Expected Dividend Yield	+3.7%
Expected Total Return	+36.8%

STOCK INFO	
KLCI	1,719.28
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	9,365.8
Market cap. (RM'm)	55,258.2
Price over NA	1.1x
52-wk price Range	RM5.82 – RM7.39
Beta (against KLCI)	1.70
3-mth Avg Daily Vol	18.27m
3-mth Avg Daily Value	RM127.7m
Major Shareholders	
Khazanah	27.37%
EPF	13.67%
KWAP	6.75%

Some banking abbreviations used in this report:
CA = Collective Impairment Allowance
CI = Cost to Income
CET1 = Common Equity Tier 1
GIL = Gross Impaired Loan
LD = Loan-Deposit
NII = Net Interest Income
NOII = Non-interest income
NIM = Net Interest margin
CASA = Current and Savings Accounts
COF = Cost of Funds
IB = Investment Banking
LLC = Loan Loss Coverage
PPOP = Pre-Provisioning Operating Profit
FVTPL = Fair Value Through Profit Or Loss

CASA was also affected by forex. Deposits expanded +2.7%yoy to RM363.4b as at 1QFY18. More notably was CASA growth of only +2.2%yoy to RM127.3b. However, this was also due to forex effect as normalised CASA grew +7.4%yoy, +9.0%yoy and +2.3%yoy in Malaysia, Indonesia and Singapore respectively. In addition, CASA growth was impacted by whittling down of expnsive savings deposits in Thailand.

Impact from MFRS 9 was manageable. As stated previously, we believe that the Group's capital position is sufficiently buffered for the implementation of MFRS 9 where it stood at 12.2% as at 4QFY17. This allowed the Group to absorb the impact of CET1 ratio reducing by -70bps on Day One implementation. Moreover, its CET1 ratio have since recovered to 11.7% as at 1QFY18 and on track to achieve its target of 12% by end FY18.

On track to achieve FY18 targets so far. Recall, the management is targeting the following for FY18; (1) ROE of 10.5%, (2) Dividend payout ratio of 40-60%, (3) total loans growth of +6.0%yoy, (4) credit cost of 0.55-0.60%, (5) CET1 ratio of 12.0% and (6) CI of 50.0%. Besides the dividend payout ratio, the Group seems to be on track to achieve its targets with the exception of loans growth. However, we understand that the management are expecting loans growth to pick up with corporate loans pipeline looking healthy especially in Indonesia. In addition, we expect loans growth to continue to be robust in Malaysia driven by the consumer segment.

FORECAST

We make no change to our forecast.

VALUATION AND RECOMMENDATION

We opine that the Group had a solid start for the year. Notable highlights were the containment of cost and strong NOII. Only disappointment was the NII decline but this was due to the NIM compression in Indonesia. We expect any headwind will come from the competition there. However, we believe that the growth in Malaysia and recovery in Thailand will moderate its impact. Loans growth appears strong and will likely continue in the coming quarters. Hence, we are maintaining our **BUY** call with an adjusted TP of RM7.85 (from RM7.80) as we roll over our valuation to FY19. Our TP is based on pegging its FY19 BVPS to a PBV of 1.4x. Although, the share price have suffered lately due to the uncertainty following the installation of a new Government in Malaysia, we believe that this presents an opportunity for investors. We believe that the share price will recover after dust has settled and more certainty on the policies of the new Government.

INVESTMENT STATISTICS OF CIMB GROUP

FYE Dec	FY16	FY17	FY18F	FY19F
Net interest income (RM'm)	9,826	10,459	10,980	11,415
Islamic banking income (RM'm)	1,704	2,132	1,951	2,068
Non-interest income (RM'm)	4,386	5,036	5,851	6,144
Total income (RM'm)	16,065	17,626	18,782	19,627
Pretax profit (RM'm)	4,884	6,110	7,366	7,434
Net profit	3,564	4,475	5,731	5,785
Core Net profit (RM'm)	3,564	4,475	4,984	5,785
Core EPS (sen)	41	50	61	58
PER (x)	14.4	11.9	9.7	10.1
Net Dividend (sen)	20	25	22	24
Net Dividend Yield (%)	3.4	4.2	3.7	4.1
Book value per share (sen)	5.11	5.23	5.58	5.99
PBV (x)	1.2	1.1	1.1	1.0
ROE (%)	8.3	9.6	11.3	10.3

Forecast by MIDFR

DAILY PRICE CHART

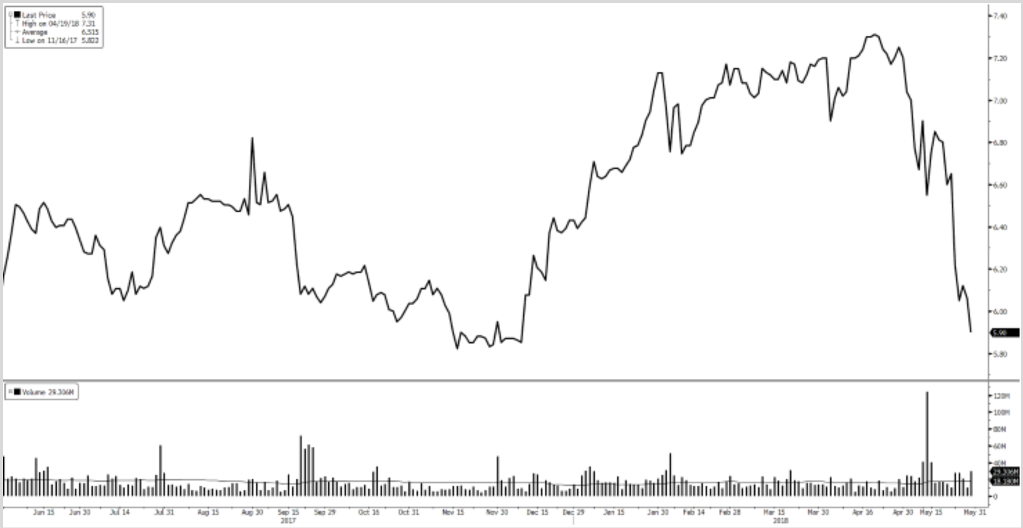

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Table 1: Comparison of quarterly results

Quarterly results (normalised)						Comments
FYE Dec (RM m)	**1QFY18***	**4QFY17**	**1QFY17**	**Yoy (+/- %)**	**Qoq (+/- %)**	
NII	2,938	2,994	3,046	-3.5%	-1.9%	NIM compression in Indonesia and flattish gross loans growth of +0.5%yoy to RM323.1b.
NOII	1,365	1,521	1,315	3.8%	-10.3%	Including gain from sale of 50% stake in CIMB Securities International (CSI) to China Galaxy.
Net income	4,303	4,515	4,361	-1.3%	-4.7%	
OPEX	(2,141)	(2,307)	(2,296)	-6.8%	-7.2%	Overall cost management efforts and deconsolidation of CSI.
PPOP	2,162	2,208	2,065	4.7%	-2.1%	
Write back/(Provision) for loan losses	(425)	(676)	(455)	-6.6%	-37.1%	Improvements in Consumer and Commercial banking
Pre-tax profit	1,743	1,535	1,614	8.0%	13.6%	
Net profit	1,306	1,060	1,180	10.7%	23.2%	
EPS (sen)	14.2	11.6	13.3	6.8%	22.4%	

** Including gain on sale of stake in CIMB Securities International (RM152m)*

Table 2: Comparison of financial ratios by quarters based on reported financials

Financial Ratios (%)	1QFY18*	4QFY17	1QFY17	Yoy (+/-ppts)	Qoq (+/-ppts)	Comments
CET-1	11.7	12.2	11.5	0.2	-0.5	
Tier 1 Capital	13.0	13.6	13.0	0.0	-0.6	
Total Capital	16.4	16.5	16.4	0.0	-0.1	
GIL ratio	3.2	3.4	3.2	0.0	-0.2	
Loan Loss Coverage	90.2	70.5	79.6	10.6	19.7	Due to MFRS 9
Credit charge-off	0.49	0.71	0.52	-0.03	-0.22	
Cost to income (CI)	49.8	51.1	52.6	-2.8	-1.3	Cost management and deconsolidation of CSI.
LD ratio	89.7	90.8	91.7	-2.0	-1.1	
NIM	2.57	2.53	2.72	-0.15	0.04	NIM compression in Indonesia.
ROE	10.2	8.8	10.3	-0.1	1.4	

** Including gain on sale of stake in CIMB Securities International (RM152m)*

Table 3: Comparison of PBT by key segments

PBT by segments (RM m)	1QFY18	1QFY17	Yoy (*/- %)	
Consumer Banking	848	561	51.2%	Driven by a robust NOII performance, with NII growing steadily and costs remaining well managed.
Commercial Banking	122	142	-14.0%	Regional business recalibration with the lower revenue partially offset by a decline in costs and provisions.
Wholesale banking	490	727	-32.6%	Weaker capital market activity in 1Q18.
GAMI	60	36	67.1%	Better performances in the asset management and private markets businesses.
Group Funding	212	147	44.0%	Gain arising from the sale of 50% of CSI.
PBT	4,575	3,672	24.6%	

Source: Company, MIDFR

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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 *rise* 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	*Negative* total return is expected, by -10% or more, over the next 12 months.
TRADING SELL	Stock price is expected to *fall* 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.