30 August 2018 | 2QFY18 Results Review

CIMB Group Holdings Berhad

***Maintain* BUY**

Lower provisions and cost discipline saved the day

***Unchanged* Target Price (TP): RM7.85**

INVESTMENT HIGHLIGHTS

- **Normalised earnings within expectations**
- **Lower provisions and OPEX moderated the impact of income contraction**
- **Income contracted due to NIM compression in Indonesia and market conditions in 2QFY18**
- **Good traction in gross loans growth**
- **Dividend of 13 sen**
- **Maintaining forecasts**
- **Maintain BUY with unchanged TP of RM7.85**

Normalised earnings within expectations. The Group 1HFY18 normalised earnings was within expectations and coming in at 47.3% and 52.1% of ours and consensus' full year estimates respectively. The normalised net profit excluded the CPAM & CPIAM gain of RM928m but included the CSI gain of RM163m.

Lower provisions offset income weakness. Normalised 1HFY18 net profit grew +3.3%yoy despite net income declining -5.2%yoy. The income pressure was alleviated by lower loan provisions which fell -29.4%yoy to RM746m. This was due to improvement from consumer (-53.0%yoy to RM261m) and commercial segment (-34.4%yoy to RM181m). Asset quality was also stable with GIL ratio remaining unchanged from 2QFY17 and 1QFY18 at 3.2%.

As did lower OPEX. OPEX fell for the second consecutive quarter where 2QFY18 OPEX declined -2.5%yoy (vs. -6.8%yoy in 1QFY18). This resulted in 1HFY18 OPEX contracting -7.3%yoy as personnel, establishment, marketing and admin & general expenses declined by -7.0%yoy, -11.9%yoy, -10.1%yoy and -0.4%yoy to RM2.42b, RM974m, RM134m and RM698m respectively. OPEX reduction was due to deconsolidation of CIMB Security International and forex impact. However, excluding forex, OPEX would have fallen -3.0%yoy which we opine showed the positive effect from the management cost management initiatives.

Income weakness from many angles... There were several factors that affected income in 1HFY18. These are:-

(1) NII declined -4.8%yoy due to NIM contraction in Indonesia where it fell by -78bps(yoy) to 5.09%. This resulted in Group 1HFY18 NIM to decline by -19bps(yoy).

(2) NII decline was also due to softer commercial and wholesale banking.

(3) NOII decline of -6.1%yoy due to slower capital market activity especially from GE14 impact in Malaysia.

RETURN STATS	
Price (29 August 2018)	RM6.09
Target Price	RM7.85
Expected Share Price Return	+28.9%
Expected Dividend Yield	+4.3%
Expected Total Return	+33.2%

STOCK INFO	
KLCI	1,820.64
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	9,365.8
Market cap. (RM'm)	57,037.7
Price over NA	1.2x
52-wk price Range	RM5.21 – RM7.39
Beta (against KLCI)	1.56
3-mth Avg Daily Vol	13.05m
3-mth Avg Daily Value	RM75.94m
Major Shareholders	
Khazanah	27.37%
EPF	14.02%
KWAP	7.27%

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

…but could potentially moderate in 2HFY18. Nevertheless, we believe that income weakness could potentially moderate in 2HFY18 as capital market acitivity picked up in 3QFY18. While NIM may continue to be under pressure, the management does not expect NIM to compress further and may be maintained cira 2.45% to 2.5% level. Coupled with continuing gross loans growth, we expect NII in 2HFY18 to recover and moderate the decline in 1HFY18.

Good traction in group gross loans growth. Group gross loans as at 2QFY18 grew by +3.4%yoy to RM329.9b driven by the consumer segment. Loans growth in this segment expanded +4.0%yoy to RM171.5b mainly supported by mortgages where it saw expansion in Malaysia (+10.1%yoy), Thailand (+5.7%yoy) and Indonesia (+8.9%yoy). Meanwhile, excluding forex effect, total gross loans grew +7.0%yoy with Malaysia the main contributor at +9.4%yoy. Thailand, Indonesia and Singapore saw loans growth in local currency of +6.3%yoy, +3.0%yoy and +11.0%yoy respectively.

Deposits affected by forex. Deposits expanded +1.5%yoy to RM354.0b as at 2QFY18. However, discounting the forex effect, deposits grew +4.7%yoy. Consumer CASA growth was robust in Malaysia and Indonesia, expanding +7.1%yoy and +7.9%yoy respectively. However, CASA declined in Thailand (-27.4%yoy) but we undestand that this was partly deliberate in order to whittle down the expnsive savings deposits.

Interim dividend of 13 sen. The Group is proposing an interim dividend of 13 sen or 51.6% payout ratio of reported net profit.

FY18 targets within reach. 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%. We opine that the Group is on track to achieve its targets. Loans growth will be supported by the consumer segment in Malaysia, and is expected to pick up with drawdowns from corporate loans. We understand from our previous discussions with the management that the corporates have not cancelled any of its approved loans but merely delaying the drawdown. Possible headwinds will be the weakness in income, but we expect it to moderate in 2HFY18. In addition, the management have indicated that cost will be contained and credit cost is expected to be better than targeted.

FORECAST

We make no change to our forecasts.

VALUATION AND RECOMMENDATION

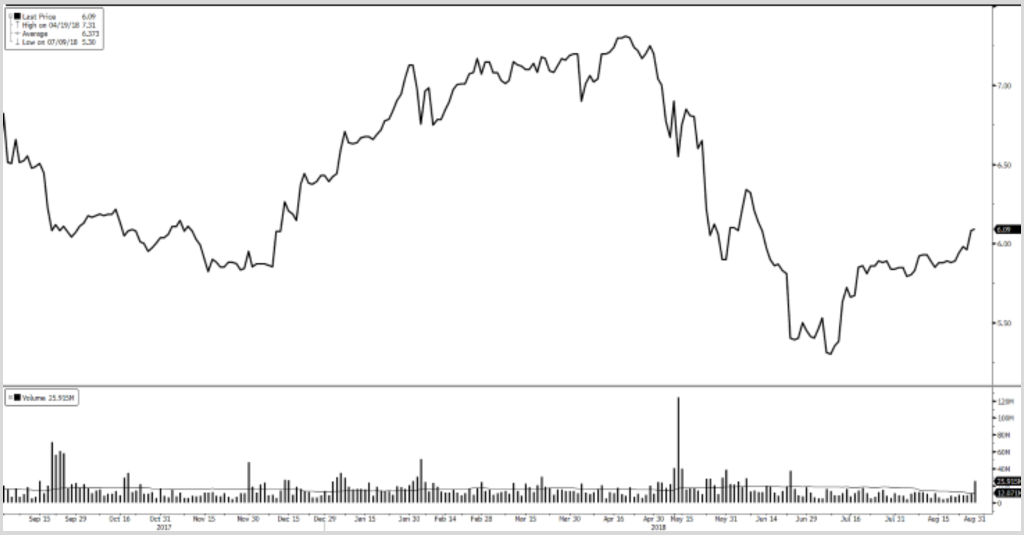
We opine that the Group perform well to mitigate the contraction in income by containing cost and provisions. We believe this will be the key for the Group to achieve its ROE target for this year. Meanwhile, growth have been robust in Malaysia and recovery in Thailand will support the Group's overall performance. Hence, we are maintaining our **BUY** call with unchanged **TP of RM7.85** based on pegging its FY19 BVPS to a PBV of 1.3x. Also, we believe the expected dividend yield of 4.3% will limit any downside risk.

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)	14.9	12.3	10.0	10.3
Net Dividend (sen)	20	25	26	26
Net Dividend Yield (%)	3.3	4.1	4.3	4.2
Book value per share (sen)	5.11	5.23	5.54	5.88
PBV (x)	1.2	1.2	1.1	1.0
ROE (%)	8.3	9.6	11.3	10.3

Forecast by MIDFR

DAILY PRICE CHART



Imran Yassin Yusof
imran.yassin@midf.com.my
03-2173 8395

Table 1: Comparison of quarterly results

Quarterly results (normalised)						Comments
FYE Dec (RM m)	2QFY18*	1QFY18*	1QFY17	Yoy (+/- %)	Qoq (+/- %)	
NII	2,931	2,938	3,118	-6.0%	-0.2%	Continued NIM compression in Indonesia
NOII	1,005	1,213	1,209	-16.9%	-17.1%	Slower capital markets particularly in Malaysia
Net income	3,936	4,303	4,327	-9.0%	-8.5%	
OPEX	(2,087)	(2,141)	(2,263)	-7.8%	-2.5%	Overall cost management efforts and deconsolidation of CSI
PPOP	1,849	2,162	2,064	-10.4%	-14.5%	
Write back/(Provision) for loan losses	(325)	(425)	(634)	-48.7%	-23.5%	Improvements in Consumer and Commercial banking
Pre-tax profit	1,531	1,743	1,433	6.8%	-12.2%	
Net profit	1,053	1,306	1,103	-4.5%	-19.4%	
EPS (sen)	11.2	14.2	12.3	-8.9%	-21.1%	
Reported net profit	1,981	1,306	1,103	79.6%	51.7%	Inclusive of the CPAM and CPIAM gain

** Includes CSI gain of RM163m (RM152m in 1QFY18 and RM11m in 2QFY18). Excludes CPAM & CPIAM gain of RM928m*

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

Financial Ratios (%)	2QFY18*	1QFY18*	1QFY17	Yoy (+/-ppts)	Qoq (+/-ppts)	Comments
CET-1	11.9	11.7	11.9	0.0	0.2	
Tier 1 Capital	13.1	13.0	13.4	-0.3	0.1	
Total Capital	16.5	16.4	16.8	-0.3	0.1	
GIL ratio	3.2	3.2	3.2	0.0	0.0	
Loan Loss Coverage	90.7	90.2	77.6	13.1	0.5	
Credit cost	0.41	0.49	0.78	-0.37	-0.08	Improvement from Commercial and Consumer banking
Cost to income (CI)	53.0	49.8	52.3	0.7	3.2	Cost management and deconsolidation of CSI
LD ratio	94.0	89.7	92.4	1.6	4.3	
NIM	2.48	2.57	2.71	-0.23	-0.09	NIM compression in Indonesia.
ROE	8.8	10.2	9.4	-0.6	-1.4	

** Includes CSI gain of RM163m (RM152m in 1QFY18 and RM11m in 2QFY18). Excludes CPAM & CPIAM gain of RM928m*

Table 3: Comparison of cumulative results and ratios

Cumulative results				Comments
FYE Dec (RM m)	**1HFY18***	**1HFY17**	**Yoy (+/- %)**	
NII	5,869	6,164	-4.8%	Softer NII from Commercial and Wholesale banking and NIM compression
NOII	2,370	2,524	-6.1%	Slower capital markets in 2QFY18
Net income	8,239	8,688	-5.2%	
OPEX	(4,228)	(4,559)	-7.3%	Cost management efforts, deconsolidation of CSI and forex impact
PPOP	4,011	4,129	-2.9%	
Write back/(Provision) for loan losses and other assets	(750)	(1,089)	-31.1%	Improvement from Commercial and Consumer banking
Shares of JV/Associates	13	7	85.7%	
Pre-tax profit	3,274	3,047	7.4%	
Net profit	2,359	2,283	3.3%	
EPS (sen)	25.4	25.6	-0.8%	
Reported net profit	3,287	2,283	44.0%	Inclusive of CPAM and CPIAM gain
			+ / - ppts	
ROE	9.7	9.9	-0.2	
NIM	2.52	2.71	-0.19	
CI	51.3	52.5	-1.2	
Credit cost	0.45	0.66	-0.21	

** Includes CSI gain of RM163m (RM152m in 1QFY18 and RM11m in 2QFY18). Excludes CPAM & CPIAM gain of RM928m*

Table 4: Comparison of PBT by key segments

PBT by segments (RM m)	**1HFY18***	**1HFY17**	**Yoy (*/- %)**	
Consumer Banking	1,611	1,196	34.7%	Underpinned by good NOII performance, steady NII growth and lower provisions
Commercial Banking	295	246	19.8%	Regional business recalibration with the lower revenue partially offset by a decline in costs and provisions.
Wholesale banking	914	1,237	-26.1%	Weaker capital market activity and higher provisions
GAMI	100	89	12.7%	Better performances in the asset management and public markets businesses.
Group Funding	354	279	27.0%	Gain arising from the sale of 50% of CSI.
PBT	3,274	3,047	7.4%	
Reported PBT	4,202	3,047	37.9%	

** Includes CSI gain of RM163m (RM152m in 1QFY18 and RM11m in 2QFY18). Excludes CPAM & CPIAM gain of RM928m*

Source: Company, MIDFR

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

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.