

30 November 2018 | 3QFY18 Results Review

## CIMB Group Holdings Berhad

**Maintain BUY**

*Robust loans growth and stable NIM*

**Adjusted Target Price (TP): RM7.70**  
(from RM7.85)

### INVESTMENT HIGHLIGHTS

- Normalised earnings in line with expectations
- Lower provisions and OPEX led earnings growth
- Income weak but improving
- Gross loans grew robustly
- Tweaking FY18 core net profit (-5.1%) and FY19 (-7.8%) forecast
- Maintain BUY with adjusted TP of RM7.70 (from RM7.85)

**Net profit in line.** The Group 9MFY18 normalised earnings was within our and expectations, coming in at 71.0% and 74.5% of respective full year estimates. The normalised net profit excluded the CPAM & CPIAM gain of RM928m but included the CSI gain of RM163m. On a reported net profit basis, it was 77.9% and 82.8% of ours and consensus' unadjusted full year estimate respectively.

**Earnings growth led by lower provisions and OPEX.** Total provisions fell -26.8%yoy due to lower loans provisions. It was lower -30.7%yoy to RM1.14b as consumer and commercial segment improved by -53.2%yoy and -48.6%yoy respectively. As for 9MFY18 OPEX, it fell by -6.4%yoy due mainly from deconsolidation of CSI and forex impact. If we exclude the forex impact, OPEX will still have improved by -2.1%yoy.

**Income weak but improving.** The 9MFY18 NII and NOII posted a decline of -3.7%yoy and -10.0%yoy respectively. The insipid NII was due to NIM contraction in Indonesia and, softer commercial and wholesale banking, while NOII was impacted by weak capital market in Malaysia in 2QFY18. However, as we had expected, income in 3QFY18 showed an improvement from 2QFY18. Total income grew +5.2%qoq with NII and NOII expanding +2.4%qoq and +13.4%qoq. While this was still lower than in 3QFY17, we opine it was encouraging as moderate the decline seen in 1HFY18.

**Robust group gross loans growth.** Group gross loans as at 3QFY18 grew by +4.9%yoy to RM338.4b. In loans currency terms, group gross loans expanded +7.3%yoy. Malaysia saw the highest growth rate of +11.0%yoy with consumer segment growing +8.4%yoy. Of this, mortgages grew +9.7%yoy.

**Deposits grew at better pace.** Group deposits increased +3.7%yoy to RM367.0b, faster than +1.5%yoy posted as at 2QFY18. This was led by wholesale banking which grew +10.9%yoy to RM157.3b. In local currency term, deposits grew +6.0%yoy, with Malaysia, Indonesia, Thailand and Singapore expanded +4.4%yoy, +3.8%yoy, +5.6%yoy and +8.7%yoy respectively. ew also note that CASA in Malaysia grew +6.1%yoy.

RETURN STATS	
Price (29 Nov. 2018)	RM5.85
Target Price	RM7.70
Expected Share Price Return	+31.6%
Expected Dividend Yield	+4.5%
<b>Expected Total Return</b>	<b>+36.1%</b>

STOCK INFO	
KLCI	1,696.34
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	9,564.5
Market cap. (RM'm)	55,952.1
Price over NA	1.1x
52-wk price Range	RM5.21 – RM7.39
Beta (against KLCI)	1.49
3-mth Avg Daily Vol	11.47m
3-mth Avg Daily Value	RM66.87m
Major Shareholders	
Khazanah	27.46%
EPF	13.94%
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

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**FY18 targets on track.** 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%. It seems that the Group is on track to achieve its targets except for its ROE target. Income remained weak but appear to be improving but in our opinion will not be enough to boost earnings to reach its ROE target. In addition, macroeconomic uncertainties will play a factor. However, we foresee ROE to be close to current level which is still decent in our opinion.

## FORECAST

We tweaked our core net profit in FY18 downwards by -5.1% and FY19 net profit by -7.8% as we believe current macroeconomic uncertainties warrant some conservatism.

## VALUATION AND RECOMMENDATION

We opine that the Group perform well given current circumstances in Indonesia and the soft market conditions in 2QFY18 in Malaysia. It was able to mitigate the contraction in income by containing cost and provisions. Besides, income seems to be improving and we believe the robust loans growth will give some uplift in NII. With no significant change to the Group's fundamental, we are maintaining our **BUY** call. However, we are adjusting our **TP to RM7.70** (from RM7.85) as we had tweaked our FY19 earnings forecast. Our TP is based on pegging its FY19 BVPS to a PBV of 1.3x. 

## INVESTMENT STATISTICS OF CIMB GROUP

FYE Dec	FY16	FY17	FY18F	FY19F
Net interest income (RM'm)	9,826	10,459	10,981	11,420
Islamic banking income (RM'm)	1,704	2,132	1,951	2,068
Non-interest income (RM'm)	4,386	5,036	5,851	5,266
Total income (RM'm)	16,065	17,626	18,783	18,754
Pretax profit (RM'm)	4,884	6,110	7,367	7,035
Net profit	3,564	4,475	5,733	5,335
Core Net profit (RM'm)	3,564	4,475	4,733	5,335
Core EPS (sen)	41	50	50	54
PER (x)	14.3	11.8	11.7	10.8
Net Dividend (sen)	20	25	26	24
Net Dividend Yield (%)	3.4	4.3	4.5	4.1
Book value per share (sen)	5.11	5.23	5.54	5.81
PBV (x)	1.1	1.1	1.1	1.0
ROE (%)	8.3	9.6	9.3	9.5

Forecast by MIDFR

## DAILY PRICE CHART



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**Table 1: Comparison of quarterly results**

FYE Dec (RM m)	Quarterly results (normalised)					Comments
	3QFY18	2QFY18*	3QFY17	Yoy (+/- %)	Qoq (+/- %)	
NII	3,000	2,931	3,049	-1.6%	2.4%	Contraction of NIM but moderated by robust loans growth
NOII	1,140	1,005	1,374	-17.0%	13.4%	Due to lower fee income and forex loss
Net income	4,140	3,936	4,423	-6.4%	5.2%	
OPEX	(2,159)	(2,087)	(2,267)	-4.8%	3.4%	Lower personnel and establishment cost
PPOP	1,981	1,849	2,156	-8.1%	7.1%	
Write back/(Provision) for loan losses and others	(509)	(325)	(631)	-19.3%	56.6%	
Pre-tax profit	1,486	1,531	1,527	-2.7%	-2.9%	
Net profit	1,180	1,053	1,132	4.2%	12.1%	
EPS (sen)	12.6	11.2	12.5	0.8%	12.5%	
Reported net profit	1,180	1,981	1,132	4.2%	-40.4%	Includes the CPAM & CPIAM gains

\* 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 (%)	3QFY18	2QFY18*	3QFY17	Yoy (+/-ppts)	Qoq (+/-ppts)	Comments
CET-1	12.3	11.9	12.0	0.3	0.4	
Tier 1 Capital	13.4	13.1	13.5	-0.1	0.3	
Total Capital	16.9	16.5	16.6	0.3	0.4	
GIL ratio	3.1	3.2	3.5	-0.4	-0.1	Improvement from consumer and commercial segment
Loan Loss Coverage	92.0	90.7	72.4	19.6	1.3	
Credit cost	0.47	0.41	0.73	-0.26	0.06	
Cost to income (CI)	52.1	53.0	51.3	0.8	-0.9	
LD ratio	93.1	94.0	92.0	1.1	-0.9	
NIM	2.49	2.48	2.60	-0.11	0.01	Due to contraction in Indonesia following aggressive rate hikes
ROE	9.6	8.8	9.5	0.1	0.8	

\* 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)	9MFY18*	9MFY17	Yoy (+/- %)	
NII	8,869	9,213	-3.7%	Due to contraction of NIM in Indonesia
NOII	3,510	3,898	-10.0%	Affected by the weak capital market in 2QFY18
Net income	12,379	13,111	-5.6%	
OPEX	(6,387)	(6,826)	-6.4%	Mainly from deconsolidation of CSI
PPOP	5,992	6,285	-4.7%	
Write back/(Provision) for loan losses and other assets	(1,259)	(1,719)	-26.8%	Improvement from commercial and consumer
Shares of JV/Associates	27	9	>100%	
Pre-tax profit	4,760	4,575	4.0%	
Net profit	3,538	3,415	3.6%	
EPS (sen)	38.0	38.1	-0.3%	
Reported net profit	4,466	3,415	30.8%	Includes the CPAM & CPIAM gains
			<b>+ / - pts</b>	
ROE	9.8	9.8	0	
NIM	2.52	2.67	-0.15	
CI	51.6	52.1	-0.5	
Credit cost	0.45	0.68	-0.23	

\* 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)	9MFY18*	9MFY17	Yoy (*/- %)	
<b>Consumer Banking</b>	2,359	1,915	23.2%	Contributed by lower provisions with revenue growth underpinned by steady NII and NOII growth
<b>Commercial Banking</b>	471	278	69.2%	Impact of regional business recalibration, although the lower cost and provisions were partially offset by a decline in operating income
<b>Wholesale banking</b>	1,268	1,844	-31.2%	Due to significantly weaker capital markets in 2Q18 and higher provisions
<b>GAMI</b>	145	95	51.4%	From better performances in both public and private market
<b>Group Funding</b>	1,446	442	>100%	Arising from the sale of 50% of CSI
<b>PBT</b>	4,760	4,575	4.0%	
<b>Reported PBT</b>	5,688	4,575	24.3%	

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

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