

07 May 2018 | Corporate Update

CIMB Group Holdings Berhad

An opportunity before potential relief rally

INVESTMENT HIGHLIGHTS

- Price has been on a downtrend since 30 April 2018.
- However, fundamentals of the Group and earnings potential remain intact.
- Hence, presents an opportunity to accumulate and take advantage of potential relief rally after GE14.
- No change to our forecasts.
- Reiterate BUY with unchanged TP of RM7.80 pegging the stock to 1.4x FY18 Price-to-Book multiple.

Profit taking affecting price? The share price of the Group fell sharply by -3.29% last Friday. In fact, it had been on a downtrend since 30 April 2018, retreating -6.6% for the period. We believe that the share price retracement could be due to profit taking activities.

Fundamental and forward earnings potential intact. In our opinion, the share price retracement presents an excellent opportunity to accumulate on the stock. This is due to the fact that we believe that the fundamentals of the Group are still intact with solid earnings potential for FY18 and FY19. In addition, we opine that there is an investment case in the medium term as well.

Loans growth expected to be better, while NIM compression expected to be benign. One of the factors that we believe will drive earnings growth is our expectations of better loans growth for FY18. Recall, in FY17, Group gross loans growth grew only +0.2%yoy due to its overseas market. Hence, even with minor recoveries will translate to more solid loans growth. For FY18, we are expecting a Group gross loans growth of +6.0%yoy. In addition, we expect NIM compression to be benign with at most -2bps from last year level. Both of these will drive FY18 top line growth.

OPEX to be well maintained. With respect to cost, we expect it to be well maintained with CI ratio at circa the 50-52% level. While there may be some further cost consolidation, this will be mitigate by the investments needed to be made for its digital offerings, which will be funded the one-off gains from the divestments.

Asset quality to continue to improve. We expect that asset quality will continue to improve in FY18. This is especially with improvements made in Indonesia and Thailand. For example, Gross NPL fell -24bps qoq and -40bps yoy to 3.51% in Indonesia as at 1QFY18.

Reiterate BUY

Unchanged Target Price (TP): RM7.80

RETURN STATS	
Price (4 May 2018)	RM6.77
Target Price	RM7.80
Expected Share Price Return	+15.2%
Expected Dividend Yield	+4.6%
Expected Total Return	+19.8%

STOCK INFO	
KLCI	1,841.83
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	9,365.8
Market cap. (RM'm)	63,406.4
Price over NA	1.3x
52-wk price Range	RM5.81 – RM7.39
Beta (against KLCI)	1.59
3-mth Avg Daily Vol	14.69m
3-mth Avg Daily Value	RM105.13m
Major Shareholders	
Khazanah	26.86%
EPF	13.19%
KWAP	6.50%

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

Overseas operation to contribute more. Based on the 1QFY18 results that have been announced for Thailand and Indonesia, we could expect that the Group's overseas to contribute more and provide a boost for the Group's earnings. In fact, we understand that the management are developing a strategic direction beyond the T18 initiatives with the expectation for its overseas operation to contribute more and be earnings accretive to the Group.

Strong investment case in the medium term as well. Besides the short term, we believe that the Group have a strong investment case in medium term as it looks beyond the T18 initiatives. One area for growth is the prospect of the Group growing its digital banking footprint which we believe that this area lays the highest potential. This will be done for customer acquisition and retention, via its distribution channels such as internet and mobile. Digital banking will also give an avenue for the Group to explore and take advantage of data analytics. Besides top line opportunities, digital banking will also have a positive impact on CI ratio once implemented.

FORECAST

We make no changes to our forecasts pending the Group's 1QFY18 result later this month.

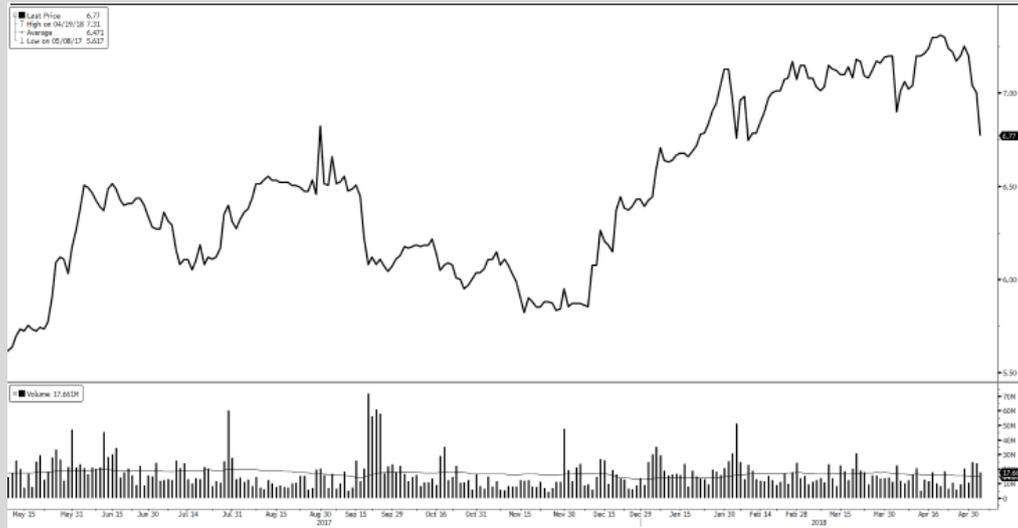
VALUATION AND RECOMMENDATION

With the Group's earnings potential expected to be remain solid in FY18 and FY19, we opine that it is an opportune time to take advantage of the share price retracement. We believe that the timing is particularly important given the potential relief rally after the 14th General Election as per the view of our strategist (refer to our report dated 3 April 2018, ["Beyond 14th General Election: Economic & Market Perspective"](#)). Hence, we **reiterate** our **BUY** call. Our unchanged **TP of RM7.80** based on pegging its FY18 BVPS to PBV multiple of 1.4x.

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	5,732	5,785
Core Net profit (RM'm)	3,564	4,475	4,985	5,785
Core EPS (sen)	41	50	61	58
PER (x)	16.5	13.6	11.2	11.6
Net Dividend (sen)	20	25	31	30
Net Dividend Yield (%)	3.0	3.7	4.6	4.4
Book value per share (RM)	5.11	5.23	5.50	5.80
PBV (x)	1.3	1.3	1.2	1.2
ROE (%)	8.3	9.6	11.3	10.3

DAILY PRICE CHART



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

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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.