

24 January 2019 | Visit Note

CIMB Group Holdings Berhad

Awaiting announcement on next phase of growth

Maintain BUY

Unchanged Target Price (TP): RM7.70

INVESTMENT HIGHLIGHTS

- **Expect FY19 income to be better**
- **Cost discipline to be maintained but investment needed**
- **No undue concern in asset quality**
- **Strategy remain in place for CIMB Thai**
- **No change to our forecast**
- **Maintain BUY with unchanged TP of RM7.70 pegging the stock to 1.3x FY19 Price-to-Book multiple**

Meeting with management. We met with the Group's CFO yesterday. Below are some of the key take away from our meeting:

- No change to management's expectation of a weakness in FY18 income due to the NIM compression in Indonesia and volatile market condition in Malaysia.
- Income should improve in FY19.
- Group's loans growth to be stable with contribution from all markets.
- Ramp-up in cost in Thailand was planned.
- Cost discipline will be maintained even as investment for next growth phase is to be made.
- We eagerly anticipate for the Group's announcement on its new 5-year plan for the next phase of growth.

Not much change for 4QFY18. Without divulging in details, we understand that the income weakness we have observed up to 9MFY18 will persist in 4QFY18. These are mainly coming from weak NII and NOII in Indonesia and Malaysia respectively. Recall, 9MFY18 NII and NOII declined -3.7%yoy and -10.0%yoy respectively. While these weaknesses will be moderated by contained OPEX and lower provisions, we understand that it will not fully offset the income gap.

Income should improve in FY19. Nevertheless, we expect that income in FY19 will improve premise on:

- i) Less pressure in NIM in Indonesia due to repricing of assets following from the policy rate hike in CY18.
- ii) NIM stability in Malaysia as deposits competition remains rational.
- iii) Loans growth expected to remain stable.

RETURN STATS	
Price (23 January 2019)	RM5.66
Target Price	RM7.70
Expected Share Price Return	+36.0%
Expected Dividend Yield	+4.6%
Expected Total Return	+40.7%

STOCK INFO	
KLCI	1,688.14
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	9,564.5
Market cap. (RM'm)	54,134.8
Price over NA	1.1x
52-wk price Range	RM5.21 – RM7.39
Beta (against KLCI)	1.48
3-mth Avg Daily Vol	7.63m
3-mth Avg Daily Value	RM43.53m
Major Shareholders	
Khazanah	26.80%
EPF	13.99%
KWAP	7.24%

Some banking abbreviations used in this report:

CA = Collective Impairment Allowance
 CI = Cost to Income
 CET1 = Common Equity Tier 1
 GIL = Gross Impaired Loan
 NPL = Non Performing 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

Group's gross loans growth expected to be stable. Recall, Group gross loans as at 3QFY18 grew by +4.9%yoy to RM338.4b, while in loans currency terms, it expanded +7.3%yoy. The Group's Malaysian operation was the key driver for Group gross loans growth in 9MFY18 (at +11.0%yoy), and we expect that there will be no change in 4QFY18. As for FY19, Group gross loans growth could come in around the same level as in FY18. However, this will be contributed across its main markets, as the Group's Malaysian gross loans growth is expected to moderate slightly. This is in line with our expectations of a moderation in the banking system loans growth in FY19 at +4.7%yoy.

Cost ramp-up in Thailand was part of a strategy. CIMB Thai's FY18 OPEX grew +9.6%yoy to THB8.35b whereby the cost was in relation to the hiring of personnel and IT expenses. As we mentioned previously, we believe that this indicate as a positive sign. We understand that the ramp-up in OPEX was planned and part of its strategy going forward. It will be focusing to expand in the retail space and specific segment in SME in Thailand.

CI ratio to plateau despite higher investments. The management indicated that it could not gain any further saving from further cost cutting measures without detriment to its operation. As such, it would have to invest to gain operational efficiency such as IT infrastructure. This is expected to balloon up CI ratio. However, with management indicating that it would remain on a cost containment mode and with income expected to improve, CI ratio is expected to plateau around the 50% level in the next couple of years.

On a separate note; divesting another business. Separately from our meeting with management, the Group announced that its wholly-owned indirect subsidiary CIG Bhd will be divesting the entire stake of 51% in CIMB Howden Insurance Brokers Sdn Bhd (CHIB) for a sum of RM59.6m. CHIB currently operates an insurance broking business. The rationale for the divestment is for the Group to further streamline and focus on its core banking businesses. We observed that this divestment follow the recent trend of divestment from the Group. We understand that part of the rationale for the divestments were to prepare the necessary funds for the Group investment needs. We are positive on this divestment as it means that the Group could monetize its peripheral assets.

Waiting to see what is in store. The investment that the Group will make is part of its initiative for the next growth stage. We eagerly anticipate for the soon to be announced plans. From what we gathered, it will include details on the Group's investments, geography and business area of focus and the steps on achieving an ROE of 12% to 13%. We understand that Malaysia and Indonesia will be the main driver for growth. We opine that this is fitting given its strength and depth in Malaysia, and the potential of Indonesia due to its market size.

FORECAST

We make no changes to our forecast pending the Group's 4QFY18 result next month.

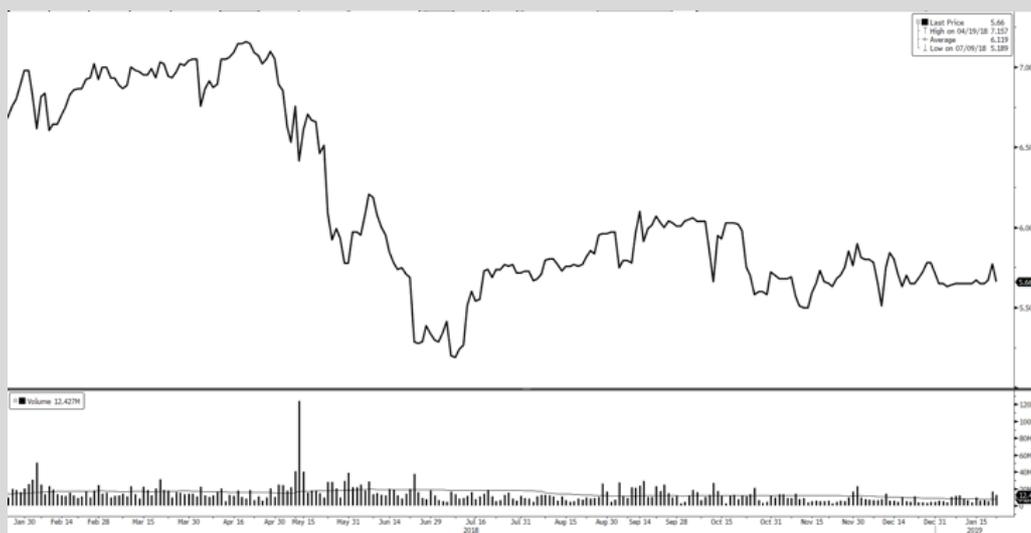
VALUATION AND RECOMMENDATION

While we recognized that the Group had faced several headwinds in FY18. However, we expect that the situation will improve in FY19. Therefore, we believe that the stock does not warrant the PBV level it is trading currently. This should represent an opportunity for investors to accumulate before an upturn in sentiment. Hence, we maintain our **BUY** recommendation. Our **TP of RM7.70** remains unchanged and is based on pegging its FY19 BVPS to PBV multiple 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)	13.8	11.4	11.3	10.5
Net Dividend (sen)	20	25	26	24
Net Dividend Yield (%)	3.5	4.4	4.6	4.2
Book value per share (RM)	5.11	5.23	5.54	5.81
PBV (x)	1.1	1.1	1.0	1.0
ROE (%)	8.3	9.6	9.3	9.5

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.