

26 April 2018 | CIMB Niaga 1QFY18 Result Review

CIMB Group Holdings Bhd

Earnings growth led by lower provisions in Indonesia

Maintain BUY

Unchanged Target Price (TP): RM7.80

INVESTMENT HIGHLIGHTS

- **Strong performance from lower provisions and NOII growth.**
- **NIM compression from intense pricing competition.**
- **Loans growth lifted by corporate and commercial.**
- **Asset quality continues to improve.**
- **No change to our forecast.**
- **Maintain BUY with unchanged TP of RM7.80 pegging the stock to 1.4x FY18 Price-to-Book multiple.**

Earnings growth led by lower provisions and NOII expansion. CIMB Niaga's earnings continue to be robust as 1QFY18 net profit grew +37.0%yoy to IDR877b. This was mainly due to lower provisions and higher NOII.

Lower provisions due to better asset quality. Total provisions fell -21.2%yoy to IDR850b. This could have stemmed from continued improvement in asset quality. Gross NPL fell -24bps qoq and -40bps yoy to 3.51%. Improvement mostly came from the corporate (-60bps qoq and -120bps yoy to 1.9%) and MSME (-50bps qoq and -70bps yoy to 3.0%) segment. Management expects that asset quality will continue to improve in the next coming quarters.

Strong NOII growth. NOII grew +38.5%yoy to IDR992b to moderate the pressure on NII which fell -2.0%yoy to IDR3.03t. The main driver was higher recoveries and forex & fixed income derivatives. These grew +278.8%yoy to IDR197b and +58.8%yoy to IDR235b respectively.

NIM compression continued. NIM continued its downtrend since 3QFY17. For 1QFY18, the NIM compression was due to intense competition in the mortgage, corporate and MSME segment affecting pricing. Management guided NIM compression to continue towards 5% level.

Corporate and commercial lifted weak loans growth. Loans growth continued to be weak at +1.8%yoy to IDR179.1t. This was mainly due to the continued consolidation of auto loans which fell -39.6%yoy to IDR7.94t. The weak loans growth was lifted by corporate (+7.3%yoy to IDR65.2t) and commercial (+4.9%yoy to IDR30.7t). Also, mortgages grew +9.9%yoy to IDR27.4t. Going forward, the management expects loans growth to pick-up in coming quarters due to infrastructure project financing and loans syndication pipeline.

RETURN STATS

Price (25 April 2018)	RM7.17
Target Price	RM7.80
Expected Share Price Return	+8.8%
Expected Dividend Yield	+4.3%
Expected Total Return	+13.1%

STOCK INFO

KLCI	1,851.93
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	9,225.5
Market cap. (RM'm)	66,147.1
Price over NA	1.4x
52-wk price Range	RM5.71 – RM7.39
Beta (against KLCI)	1.57
3-mth Avg Daily Vol	15.74m
3-mth Avg Daily Value	RM112.42m
Major Shareholders	
Khazanah	27.27%
EPF	14.12%
KWAP	6.66%

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

Deposit growth remained strong. Total deposits grew +8.8%yoy to IDR191.5t. This was due to healthy growth in both CASA and structured deposits. The time and structured deposits grew +10.5%yoy to IDR86.1t. Meanwhile, CASA grew at +7.4%yoy to IDR105.4t.

FORECAST

We make no changes to our forecast pending the Group's 1QFY18 result.

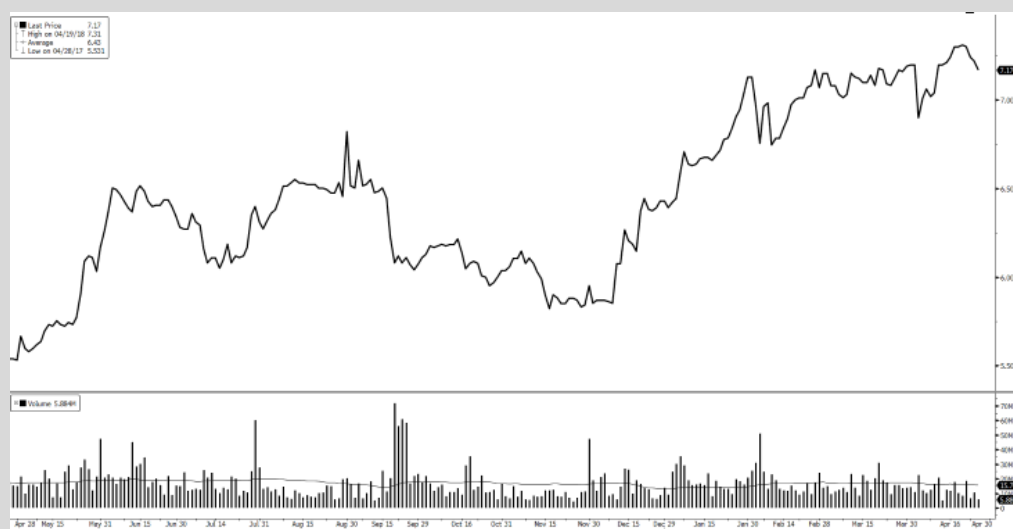
VALUATION AND RECOMMENDATION

As we had expected, CIMB Niaga continue to post strong result. We believe that the earnings performance from CIMB Niaga will provide a boost to the net profit of Group. Our only concern in Indonesia is the intense loans pricing competition. However, we believe that continued robust CASA growth may moderate its impact, with that prospect for the Group remains solid. Furthermore, the results from its operations in Indonesia and Thailand suggest that there will be minimal drag to earnings this year. Hence, we maintain our **BUY** recommendation with 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)	17.5	14.5	11.8	12.3
Net Dividend (sen)	20	25	31	30
Net Dividend Yield (%)	2.8	3.5	4.3	4.2
Book value per share (RM)	5.11	5.23	5.50	5.80
PBV (x)	1.4	1.4	1.3	1.2
ROE (%)	8.3	9.6	11.3	10.3

DAILY PRICE CHART



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Table 1: Comparison of quarterly results

Quarterly results (normalised)						Comments
FYE Dec (IDR b)	1QFY18	4QFY17	1QFY17	Yoy (+/- %)	Qoq (+/- %)	
NII	3,033	3,034	3,096	-2.0%	0.0%	Due to lower NIM and moderate loans growth.
NOII	992	1,034	716	38.5%	-4.1%	Contributed by higher recoveries and forex and fixed income derivatives.
Net income	4,025	4,068	3,812	5.6%	-1.1%	
OPEX	(1,955)	(1,932)	(1,873)	4.4%	1.2%	Higher other cost.
PPOP	2,070	2,136	1,939	6.8%	-3.1%	
Write back/(Provision) for loan losses	(850)	(923)	(1,079)	-21.2%	-7.9%	Improvement in corporate and MSME loans asset quality.
Core Pre-tax profit	1,220	1,213	860	41.9%	0.6%	
Core Net Profit	877	781	640	37.0%	12.3%	Due to lower provisions.
EPS (IDR)	34.98	31.08	25.45	37.4%	12.5%	

Source: Company

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

Financial Ratios (%)	1QFY18	4QFY17	1QFY17	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
Tier 1 Capital	17.88	17.31	17.02	0.86	0.57	
Total CAR	19.13	18.60	18.46	0.67	0.53	
Gross NPL	3.51	3.75	3.91	-0.40	-0.24	Improvement in corporate (-60bps qoq and -120bps yoy to 1.9%) and MSME (-50bps qoq and -70bps yoy to 3.0%)
Net NPL	1.99	2.16	2.11	-0.12	-0.17	
GIL ratio	4.61	5.10	5.07	-0.46	-0.49	
Loan Loss Coverage	105.54	107.16	117.58	-12.04	-1.62	
Credit charge-off	1.79	2.02	2.31	-0.52	-0.23	
Cost to income (CI)	48.58	47.51	49.13	-0.55	1.07	
CASA ratio	55.04	52.55	55.74	-0.70	2.49	Current account grew +4.7%yoy and savings account grew +10.1%yoy. Meanwhile structured and time deposits grew +10.5%yoy.
LD ratio	91.98	96.24	98.50	-6.52	-4.26	
NIM	5.10	5.20	5.71	-0.61	-0.10	Easing NIM since 3QFY17 which was due rate cuts by Bank Indonesia and disposal of high end macro business.
ROE	9.40	8.47	7.40	2.00	0.93	

Source: Company

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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.