

15 August 2018 | CIMB Niaga 2QFY18 Result Review

## CIMB Group Holdings Berhad

*CIMB Niaga: Driven by lower provisions*

**Maintain BUY**

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

### INVESTMENT HIGHLIGHTS

- Lower provisions continue to drive net profit growth
- Asset quality continued to improve stemming from better asset quality in corporate segment
- NIM remains under pressure
- Slightly better loans growth
- No change to our forecasts
- Maintain BUY with unchanged TP of RM7.85 pegging the stock to 1.4x FY19 Price-to-Book multiple

**Net profit driven by lower provisions.** For the second consecutive quarters, CIMB Niaga's net profit was driven by lower provisions. The 2QFY18 net profit grew +20.4%yoy resulting in 1HFY18 earnings to grow +28.1%yoy.

**Asset quality continued to improve.** Total provisions fell -27.1%yoy to IDR1.55t, from continued improvement in asset quality. Gross NPL fell -50bps yoy mainly due to improvement in asset quality in corporate segment where gross NPL fell -150bps yoy. Meanwhile, gross NPL at MSME and consumer segments were stable where it fell -40bps yoy respectively to 3.2% and 2.6%. Slight worry is the higher commercial segment gross NPL where it went up by +150bps yoy to 9.3%. This segment contributed 17% to the total loans book. We will not be surprise if management decide to decelerate the loans growth in this segment should gross NPL rise further.

**Strong NOII growth moderate NII decline.** NOII in 1HFY18 grew +32.6%yoy mainly led by income from recovery where it grew +135.3%yoy to IDR327b. In addition, we were encouraged to note that other components of NOII also showed strong growth. Discounting the recovery income, which might not be a stable income source, other NOII grew +21.3%yoy to IDR1.54t as it saw solid growth for forex & fixed income derivatives, arranger & syndication fees and transactional banking & trade finance. These grew +57.9%yoy, +193.3%yoy and +22.7%yoy to IDR390b, IDR88b and IDR81b respectively.

**NIM continued to be under pressure.** NIM fell another -7bps qoq. The NIM pressure stemmed from the rate hike by Bank Indonesia. As a result NII for 2QFY18 fell -8.6%yoy, while 1HFY18 NII fell -5.4%yoy. We expect that NIM will continue to be under pressure as intense competition for loans remains. However, management had guided NIM compression to hold towards 5% level.

### RETURN STATS

Price (14 August 2018)	RM5.85
Target Price	RM7.85
Expected Share Price Return	+34.2%
Expected Dividend Yield	+3.7%
<b>Expected Total Return</b>	<b>+37.9%</b>

### STOCK INFO

KLCI	1,783.78
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	9,365.8
Market cap. (RM'm)	54,789.9
Price over NA	1.0x
52-wk price Range	RM5.21 – RM7.39
Beta (against KLCI)	1.56
3-mth Avg Daily Vol	14.73m
3-mth Avg Daily Value	RM86.91m
Major Shareholders	
Khazanah	27.37%
EPF	14.00%
KWAP	7.26%

### 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

**Loans growth still below industry but this was due to realignment.** Loans growth expanded at a slight faster pace at +3.0%yoy to IDR185.7t from +1.8%yoy as at last quarter. However, it was still below the industry's loans growth of +8.6%yoy (June'17 to May'18). Nevertheless, we understand this was partly deliberate as CIMB Niaga realigned its loans book to reduce exposure in auto, personal and micro loans. This segments fell -37.3%yoy, -9.0%yoy and -6.9%yoy to IDR7.3t, IDR4.5t and IDR7.7t respectively. Meanwhile, mortgage loans, corporate and commercial loans grew strongly at +8.9%yoy to IDR28.0t, +8.8%yoy to IDR70.0t and +5.7%yoy to IDR32.0t respectively.

**Deposit growth remained strong but could have affected margins.** Total deposits grew +9.1%yoy to IDR190.3t. This could have affected margins during the rate hike as deposit rate are adjusted first in Indonesia. However, we opine that the robust in CASA moderated this impact as it grew +12.8%yoy to IDR106.8t. The time and structured deposits grew +4.8%yoy to IDR83.5t but fell by -3.1%qoq on a sequential quarter basis.

## FORECAST

We make no changes to our forecasts pending the Group's 2QFY18 result later this month.

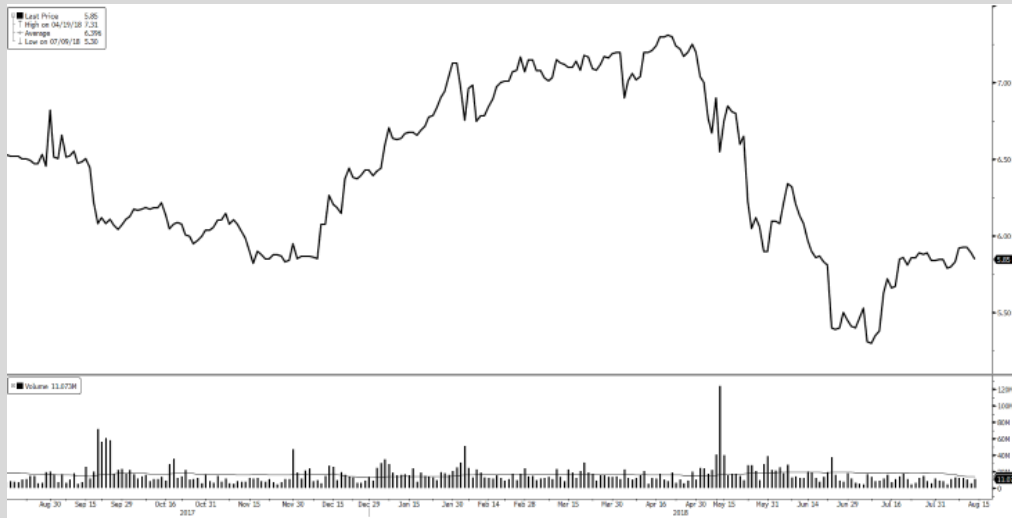
## VALUATION AND RECOMMENDATION

While CIMB Niaga continued to post strong result, we are concerned that this was due to lower provisions and not from a solid income expansion. However, we believe that the robust NOII growth is encouraging and may continue to provide buffer for the weak NII. As such, we believe that the earnings performance from CIMB Niaga will continue provide a boost to the net profit of the Group. Furthermore, we believe that the Group will be able to achieve its ROE target for this year with the performance in Malaysia to continue to be solid. Hence, we maintain our **BUY** recommendation with unchanged **TP of RM7.85** based on pegging its FY19 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)	14.3	11.8	9.6	9.8
Net Dividend (sen)	20	25	22	24
Net Dividend Yield (%)	3.4	4.3	3.7	4.1
Book value per share (RM)	5.11	5.23	5.58	5.99
PBV (x)	1.1	1.1	1.0	1.0
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)	2QFY18	1QFY18	2QFY17	Yoy (+/- %)	Qoq (+/- %)	
NII	2,955	3,033	3,233	-8.6%	-2.6%	Due to lower NIM and weak loans growth.
NOII	872	992	690	26.4%	-12.1%	Contributed by higher recoveries and forex and fixed income derivatives.
Net income	3,827	4,025	3,923	-2.4%	-4.9%	
OPEX	(1,924)	(1,955)	(1,879)	2.4%	-1.6%	Higher other cost.
PPOP	1,903	2,070	2,044	-6.9%	-8.1%	
Write back/(Provision) for loan losses	(702)	(850)	(1,049)	-33.1%	-17.4%	Improvement in corporate asset quality.
Core Pre-tax profit	1,201	1,220	995	20.7%	-1.6%	
Core Net Profit	891	877	740	20.4%	1.6%	Due to lower provisions.
EPS (IDR)	35.56	34.98	29.47	20.7%	1.7%	

Source: Company

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

Financial Ratios (%)	2QFY18	1QFY18	2QFY17	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
Tier 1 Capital	17.38	17.88	17.08	0.30	-0.50	
Total CAR	18.57	19.13	18.43	0.14	-0.56	
Gross NPL	3.39	3.51	3.89	-0.50	-0.12	Improvement in corporate (-80bps qoq and -150bps yoy to 1.1%). Consumer and MSME improved -40bps yoy to 2.6% and 3.2% respectively.
Net NPL	1.87	1.99	2.03	-0.16	-0.12	
GIL ratio	4.36	4.61	5.01	-0.65	-0.25	
Loan Loss Coverage	106.83	105.54	109.33	-2.50	1.29	
Credit charge-off	1.54	1.79	2.38	-0.84	-0.25	
Cost to income (CI)	50.28	48.58	47.90	2.38	1.70	
CASA ratio	56.12	55.04	54.32	1.80	1.08	Current account grew +16.2%yoy and savings account grew +9.7%yoy. Meanwhile structured and time deposits grew +4.8%yoy.
LD ratio	95.93	91.98	101.69	-5.76	3.95	
NIM	5.03	5.10	6.05	-1.02	-0.07	Easing NIM due rate cuts by Bank Indonesia.
ROE	9.43	9.40	8.39	1.04	0.03	

Source: Company

**Table 3: Comparison of cumulative quarter results**

Cumulative results (normalised)				Comments
FYE Dec (IDR b)	1HFY18	1HFY17	Yoy (+/- %)	
NII	5,988	6,329	-5.4%	Due to lower NIM and weak loans growth.
NOII	1,864	1,406	32.6%	Contributed by higher recoveries, forex & fixed income derivatives, arranger & syndication fees and transactional & trade financing.
Net income	7,852	7,735	1.5%	
OPEX	(3,879)	(3,752)	3.4%	Higher other cost.
PPOP	3,973	3,983	-0.3%	
Write back/(Provision) for loan losses	(1,552)	(2,128)	-27.1%	Improvement in corporate, consumer and MSME loans asset quality.
Core Pre-tax profit	2,421	1,855	30.5%	
Core Net Profit	1,768	1,380	28.1%	Due to lower provisions.
EPS (IDR)	70.54	54.92	28.4%	
			<b>+ / - pts</b>	
ROE	9.37	7.9	1.47	
NIM	5.09	5.87	-0.78	
CI	49.4	48.5	0.9	
LD	95.9	101.7	-5.8	
CASA ratio	56.1	54.3	1.8	

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.