

## CIMB Group Holdings Bhd

*CIMB Niaga: Higher NOII and lower provisions*

**Maintain BUY**

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

### INVESTMENT HIGHLIGHTS

- **Net profit driven by lower provisions and supported by NOII growth**
- **NIM improved on sequential quarter basis**
- **General trend of improvement in asset quality**
- **Sluggish loans growth due to realignment**
- **No change to our forecast**
- **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...** CIMB Niaga's net profit continued to be driven by lower provisions. Its 9MFY18 net profit grew +18.0%yoy as provisions were lower by -26.8%yoy. Meanwhile, its 3QFY18 provisions fell -26.3%yoy.

**...supported by NOII growth.** NOII for 9MFY18 grew by +23.6%yoy with 3QFY18 NOII expanding +9.9%yoy. This relieved some of the pressure to NII as it fell -3.8%yoy in 9MFY18. The NOII growth was mainly lead by improvements of +1.1%yoy to IDR1.45t in fees and commissions income, +84.6%yoy to IDR491b in recovery, and +42.7%yoy to IDR685b in gains from forex and fixed income derivatives.

**NIM holding steady.** NIM improved on a sequential quarter basis coming at +14bps better. The quarter-on-quarter improvement in NIM was due to gradual loan re-pricing and average CASA growth which expanded +3.7%yoy to IDR103.5t.

**General trend of asset quality improvement.** Gross NPL fell -54bps yoy to 3.41%. Although, there was a marginal increase in gross NPL (by +2bps qoq) as compared to as at 2QFY18, we believe that the general trend is towards overall improvement in asset quality. Meanwhile, corporate, MSME and consumer segments saw gross NPL declined by -130bps yoy, -60bps yoy and -10bps yoy to 1.5%, 2.9% and 2.9% respectively.

**Loans growth still sluggish due realignment.** Loans expanded +2.2%yoy to IDR182.8t, which slightly off pace from last quarter's +3.0%yoy. However, we understand this was partly due to ongoing realignment of its loans book to reduce exposure in auto, personal and micro loans. These segments fell -32.8%yoy to IDR6.81t, -12.5%yoy to IDR4.28t and -1.5%yoy to IDR7.69t respectively. Meanwhile, mortgage loans continue to support loans growth as it expanded strongly at +10.0%yoy to IDR29.1t.

### RETURN STATS

Price (31 October 2018)	RM5.72
Target Price	RM7.85
Expected Share Price Return	+37.2%
Expected Dividend Yield	+4.6%
<b>Expected Total Return</b>	<b>+41.8%</b>

### STOCK INFO

KLCI	1,709.27
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	9,564.5
Market cap. (RM'm)	54,708.7
Price over NA	1.0x
52-wk price Range	RM5.21 – RM7.39
Beta (against KLCI)	1.51
3-mth Avg Daily Vol	12.11m
3-mth Avg Daily Value	RM71.09m
Major Shareholders	
Khazanah	27.46%
EPF	13.45%
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  
 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

## FORECAST

We make no changes to our forecast pending the Group's 3QFY18 result later this month.

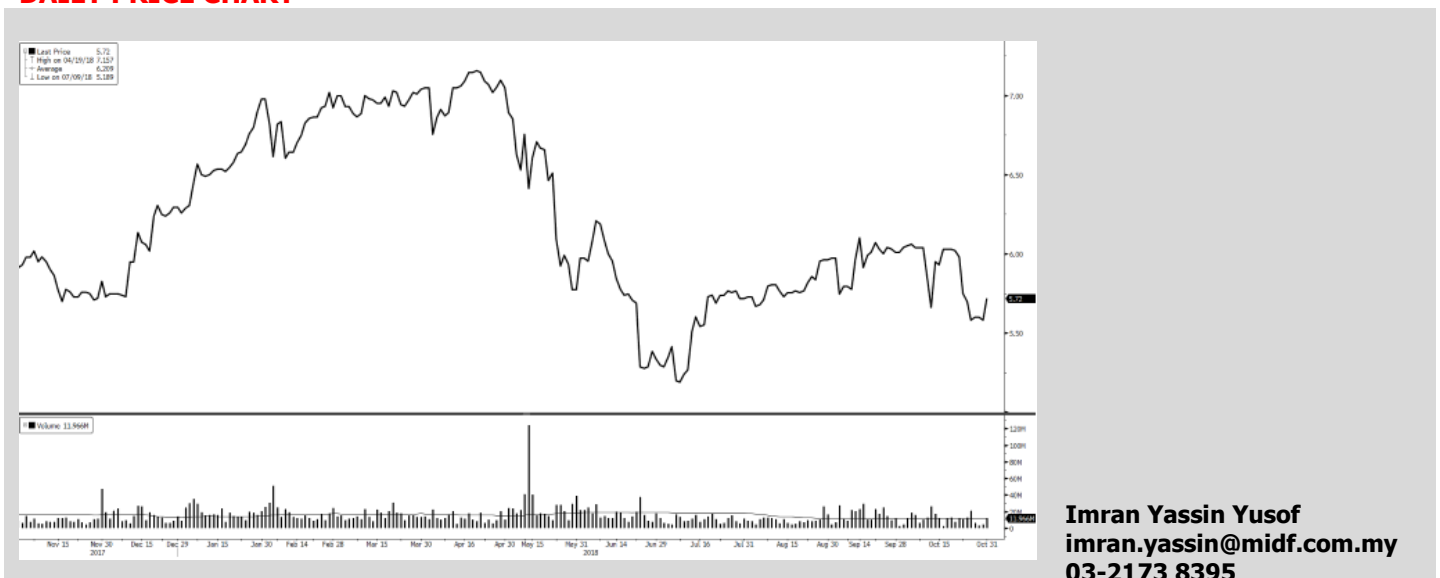
## VALUATION AND RECOMMENDATION

We were pleasantly surprised by CIMB Niaga's solid results. In particular was the improvement in NIM and NII. As such, we believe that the drag from the weakness in NII may be less than we initially anticipated. In addition, we were pleased to see continued robust NOII growth and lower provisions, which may provide support to CIMB Niaga's earnings. Therefore, we opine that CIMB Niaga may not be too much of an encumbrance to the Group's earnings, operationally. Any moderating factors to Group earnings will likely come from translation effect. We also opine that the Group's performance in Malaysia will 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)	14.0	11.5	9.4	9.7
Net Dividend (sen)	20	25	26	26
Net Dividend Yield (%)	3.5	4.4	4.6	4.5
Book value per share (RM)	5.11	5.23	5.54	5.88
PBV (x)	1.1	1.1	1.0	1.0
ROE (%)	8.3	9.6	11.3	10.3

## DAILY PRICE CHART



**Table 1: Comparison of quarterly results**

Quarterly results (normalised)						Comments
FYE Dec (IDR b)	3QFY18	2QFY18	3QFY17	Yoy (+/- %)	Qoq (+/- %)	
NII	3,024	2,955	3,040	-0.5%	2.3%	Better NIM on sequential quarter basis
NOII	1,003	872	913	9.9%	15.0%	
Net income	4,027	3,827	3,953	1.9%	5.2%	
OPEX	(2,064)	(1,924)	(1,837)	12.4%	7.3%	Higher personnel cost
PPOP	1,963	1,903	2,116	-7.2%	3.2%	
Write back/(Provision) for loan losses	(758)	(702)	(1,029)	-26.3%	8.0%	Better asset quality
Core Pre-tax profit	1,205	1,201	1,087	10.9%	0.3%	
Core Net Profit	824	891	817	0.9%	-7.5%	
EPS (IDR)	33.06	35.56	32.50	1.7%	-7.0%	

Source: Company

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

Financial Ratios (%)	3QFY18	2QFY18	3QFY17	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
Tier 1 Capital	18.24	17.41	17.64	0.60	0.83	
Total CAR	19.41	18.60	18.96	0.45	0.81	
Gross NPL	3.41	3.39	3.95	-0.54	0.02	Better asset quality management
Net NPL	1.82	1.87	2.02	-0.20	-0.05	
GIL ratio	4.33	4.36	5.24	-0.91	-0.03	
Loan Loss Coverage	101.24	106.83	115.07	-13.83	-5.59	
Credit charge-off	1.67	1.54	2.31	-0.64	0.13	
Cost to income (CI)	51.26	50.28	46.47	4.79	0.98	Higher personnel cost
CASA ratio	53.25	56.12	53.28	-0.03	-2.87	Time deposits grew faster
LD ratio	92.44	95.93	93.96	-1.52	-3.49	
NIM	5.17	5.03	5.50	-0.33	0.14	Loans repricing and CASA growth
ROE	8.52	9.43	9.05	-0.53	-0.91	

Source: Company

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

Cumulative results (normalised)				Comments
FYE Dec (IDR b)	9MFY18	9MFY17	Yoy (+/- %)	
NII	9,012	9,369	-3.8%	Due to NIM compression
NOII	2,867	2,319	23.6%	Better fees and commission income
Net income	11,879	11,688	1.6%	
OPEX	(5,943)	(5,589)	6.3%	Higher other expenses
PPOP	5,936	6,099	-2.7%	
Write back/(Provision) for loan losses	(2,310)	(3,157)	-26.8%	Better asset quality
Core Pre-tax profit	3,626	2,942	23.2%	
Core Net Profit	2,592	2,197	18.0%	
EPS (IDR)	103.99	87.42	19.0%	
			<b>+ / - pts</b>	
ROE	9.08	8.29	0.79	
NIM	5.12	5.74	-0.62	Due to aggressive rate hike by Bank of Indonesia
CI	50.0	47.8	2.2	
LD	92.4	94.0	-1.5	
CASA ratio	53.3	53.3	0.0	

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.