

27 February 2018 | CIMB Niaga 4QFY17 Result Review

## CIMB Group Holdings Bhd

*Recovery well on its way in Indonesia*

### INVESTMENT HIGHLIGHTS

- **Strong performance continues supported by higher NII, controlled OPEX and lower provisions**
- **NIM compression remained since 3QFY17 but CASA growth will moderate impact**
- **Solid growth in mortgage and SMEs**
- **Asset quality improved**
- **No change to our forecast pending result announcement**
- **Maintain BUY with unchanged TP of RM7.17 pegging the stock to 1.3x FY18 Price-to-Book multiple, pending Group result expected tomorrow**

**Strong performance continues.** CIMB Niaga maintained its strong performance. FY17 net profit grew +58.8%yoy to IDR2.98t. This was due to higher income, controlled OPEX and lower provisions.

**NOII lead income growth.** NOII grew +18.8%yoy to IDR3.35t due to higher recoveries and fees & commissions. These grew +131.4%yoy to IDR398b and +15.2%yoy to IDR2.02t respectively. This moderated the NIM compression in 2HFY17.

**NIM compression in 2HFY17.** NII growth mainly came in 1HFY17. Conversely, NII declined in 3QFY17 and 4QFY17 by -1.1%yoy and -5.4%yoy respectively. This was due to NIM downtrend in 3QFY17 and 4QFY17. Part of the reason for the NIM compression was the two rate cuts by Bank Indonesia and the disposal of high end macro business in 3QFY17. However, we believe that CASA growth had moderated the NIM compression. CASA grew +8.4%yoy to IDR99.5t while total deposits grew +4.8%yoy to IDR189.3b.

**Controlled OPEX and lower provisions.** OPEX for FY17 was well contained due to lower general & admin and advertising expenses (-3.1%yoy to IDR3.51t and -7.0%yoy to IDR254b respectively). Meanwhile, provisions were lower possibly due to improved situation in Indonesia and better asset quality management.

**Mortgage and SMEs loans continued traction.** Loans growth continued to be tepid with +2.8%yoy to IDR185.1t. However, this was mainly due to the consolidation of auto loans which fell -41.1%yoy to IDR8.72t. Main driver for loans growth was from mortgage (+12.0%yoy to IDR7.0t) and SMEs (+10.7%yoy to IDR27.27t).

**Maintain BUY**

**Unchanged Target Price (TP): RM7.17\***

RETURN STATS	
Price (26 February 2018)	RM7.25
Target Price	RM7.17
Expected Share Price Return	-1.1%
Expected Dividend Yield	+4.8%
<b>Expected Total Return</b>	<b>+3.7%</b>

\* we are making an exception pending result announcement.

STOCK INFO	
KLCI	1,860.08
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	9,225.5
Market cap. (RM'm)	66,885.2
Price over NA	1.4x
52-wk price Range	RM4.91 – RM7.36
Beta (against KLCI)	1.67
3-mth Avg Daily Vol	17.26m
3-mth Avg Daily Value	RM114.79m
Major Shareholders	
Khazanah	27.27%
EPF	14.22%
KWAP	6.49%

#### 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

**Asset quality stable and improving.** Gross NPL improved -20bps qoq to 3.75% as at 4QFY17. This was due improvements in corporate and consumer loans book, where gross NPL was -30bps qoq and -50bps qoq better at 2.5% respectively. Meanwhile, there was a slight uptick in commercial loans book gross NPL to 8.2% from 8.0% as at 3QFY17.

## FORECAST

We make no changes to our forecast pending 4QFY17 result for the Group.

## VALUATION AND RECOMMENDATION

In our view, the strong result from CIMB Niaga has been a boost to the Group's earnings up to 9MFY17 and we do not foresee 4QFY17 will be any different. Our slight concern was on the NIM compression but we believe that CASA growth may moderate its impact. We continue to like its strategy to scale down its auto and micro financing loans book which protects asset quality. As a result we note that asset quality has improved. We believe that prospect for the Group remains solid. Hence, we maintain our **BUY** recommendation with unchanged **TP of RM7.17** based on pegging its FY18 BVPS to PBV multiple of 1.3x. We are making an exception to our guide recommendation due to the fact that the Group's result is expected to be released tomorrow.



## INVESTMENT STATISTICS OF CIMB GROUP

FYE Dec	FY15	FY16	FY17F	FY18F
Net interest income (RM'm)	9,337	9,826	10,153	10,980
Islamic banking income (RM'm)	1,569	1,704	1,823	1,951
Non-interest income (RM'm)	4,490	4,386	4,581	5,851
Total income (RM'm)	15,396	16,065	16,557	18,782
Pretax profit (RM'm)	3,914	4,884	5,438	7,366
Net profit	2,850	3,564	4,232	5,731
Core Net profit (RM'm)	3,411	3,564	4,232	4,984
Core EPS (sen)	40.2	41	47	53
PER (x)	18.0	17.7	15.3	13.7
Net Dividend (sen)	14	20	26	35
Net Dividend Yield (%)	1.9	2.8	3.6	4.8
Book value per share (RM)	4.81	5.11	5.22	5.51
PBV (x)	1.5	1.4	1.4	1.3
ROE (%)	8.6	8.3	9.2	11.4

## DAILY PRICE CHART



**Table 1: Comparison of quarterly results**

FYE Dec (IDR b)	Quarterly results (normalised)					Comments
	4QFY17	3QFY17	4QFY16*	Yoy (+/- %)	Qoq (+/- %)	
NII	3,034	3,040	3,207	-5.4%	-0.2%	Due to lower NIM but was moderated by +2.8%yoy loans growth.
NOII	1,034	913	583	77.4%	13.3%	Contributed by higher recoveries and fee & commissions income.
Net income	4,068	3,953	3,790	7.3%	2.9%	
OPEX	(1,932)	(1,837)	(1,825)	5.9%	5.2%	Lower advertising cost and general & admin cost.
PPOP	2,136	2,116	1,965	8.7%	0.9%	
Write back/(Provision) for loan losses	(923)	(1,029)	(1,195)	-22.8%	-10.3%	Improvement in asset quality management.
Core Pre-tax profit	1,213	1,087	770	57.5%	11.6%	
Core Net Profit	781	817	576	35.6%	-4.4%	Lower provisions and OPEX.
EPS (IDR)	31.08	32.50	22.92	35.6%	-4.4%	

\* BAU excludes one-off fee income IDR276b

Source: Company

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

Financial Ratios (%)	4QFY17	3QFY17	4QFY16	Yoy (+/- ppts)	Qoq (+/- ppts)	Comments
Tier 1 Capital	17.31	17.64	16.44	0.87	-0.33	
Total CAR	18.60	18.96	17.96	0.64	-0.36	
Gross NPL	3.75	3.95	3.89	-0.14	-0.20	Uptick from commercial (+20bps qoq and +60bps yoy to 8.2%)
Net NPL	2.16	2.02	2.16	0.00	0.14	
GIL ratio	5.10	5.24	5.24	-0.14	-0.14	
Loan Loss Coverage	107.16	115.07	117.68	-10.52	-7.91	
Credit charge-off	2.02	2.31	2.63	-0.61	-0.29	
Cost to income (CI)	47.51	46.47	48.14	-0.63	1.04	
CASA ratio	52.55	53.28	50.84	1.71	-0.73	Current account grew +10.5%yoy and savings account grew +6.4%yoy. Meanwhile structured and time deposits grew +1.2%yoy.
LD ratio	96.24	93.96	98.38	-2.14	2.28	
NIM	5.20	5.50	5.91	-0.71	-0.30	Easing NIM since 3QFY17 which was due rate cuts by Bank Indonesia and disposal of high end macro business.
ROE	8.47	9.05	6.81	1.66	-0.58	

Source: Company

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

Cumulative results (normalised)				Comments
FYE Dec (IDR b)	FY17	FY16*	Yoy (+/- %)	
NII	12,403	12,094	2.6%	Easing NIM but moderated by performance in 1HFY17.
NOII	3,353	2,822	18.8%	Better recovery (+131.4%yoy to IDR398b) and fees & commissions (+15.2%yoy to IDR2.02t) income.
Net income	15,756	14,916	5.6%	
OPEX	(7,521)	(7,368)	2.1%	Lower advertising (-7.0%yoy to IDR254b) and general & admin (-3.1%yoy to IDR3.51t) was moderated by higher personnel cost (+8.2%yoy to IDR3.78t).
PPOP	8,235	7,548	9.1%	
Write back/(Provision) for loan losses	(4,080)	(4,973)	-18.0%	Improved asset quality.
Core Pre-tax profit	4,155	2,575	61.4%	
Core Net Profit	2,978	1,875	58.8%	Due to better income, controlled OPEX and lower provisions.
EPS (IDR)	118.50	74.60	58.8%	
			<b>+ / - pts</b>	
ROE	8.34	5.81	2.53	
NIM	5.60	5.64	-0.04	Due to NIM compression in 2HFY17
CI	47.7	49.4	-1.7	
LD	96.2	98.4	-2.1	
CASA ratio	52.6	50.8	1.7	

\* BAU excludes one-off fee income IDR276b

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.