

22 October 2018 | CIMB Thai 3QFY18 Results Review

CIMB Group Holdings Berhad

CIMB Thai: Dragged by higher tax

Maintain BUY

Unchanged Target Price (TP): RM7.85

INVESTMENT HIGHLIGHTS

- **Net profit dragged by higher taxation and higher OPEX**
- **Income growth was robust**
- **Along with lower provisions, moderated the drag**
- **No change in asset quality**
- **No change to our forecast**
- **Maintain BUY with unchanged TP of RM7.85 pegging the stock to 1.4x FY19 Price-to-Book multiple**

Earnings dragged by higher taxation. CIMB Thai 9MFY18 net profit came in marginally lower by -3.1%yoy to THB537.4m. This was mostly due to higher taxation as profit before tax rose +5.9%yoy. Tax was +41.1%yoy higher to THB199.2m over the period.

Also on higher OPEX. For 9MFY18, OPEX grew +10.8%yoy to THB6.02b. The increase in OPEX came from higher employee expenses and others. These expanded +9.6%yoy to THB3.3b and +24.6%yoy to THB1.58b. However, we are not overly concerned by this as the increase was due to expansion.

Robust income growth, and... NII grew +4.4%yoy to THB7.94b due to loans expansion of +4.3%yoy to THB219.9b. Interest income rose +3.2%yoy to THB11.27b while interest expense was flattish with +0.3%yoy to THB3.33b. This was despite NIM coming in -11bps to 3.77% lower on lower yield assets.

...lower provisions moderated the drag. Provisions for 9MFY18 fell -10.3%yoy to THB3.33b despite gross NPL remaining the same. Gross NPL was 5.7% as at 3QFY18.

Strong deposits growth. Deposits (inclusive of Bill of Exchanges, Debentures and selected Structured Deposit Products) grew +9.2%yoy to THB231.6b. This resulted in Modified LD to come down to a reasonable 95% from 99.4% as at 3QFY17.

FORECAST

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

RETURN STATS

Price (19 October 2018)	RM6.02
Target Price	RM7.85
Expected Share Price Return	+30.4%
Expected Dividend Yield	+4.3%
Expected Total Return	+34.7%

STOCK INFO

KLCI	1,732.14
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	9,365.8
Market cap. (RM'm)	56,382.3
Price over NA	1.1x
52-wk price Range	RM5.21 – RM7.39
Beta (against KLCI)	1.50
3-mth Avg Daily Vol	12.02m
3-mth Avg Daily Value	RM70.67m
Major Shareholders	
Khazanah	27.37%
EPF	13.42%
KWAP	7.25%

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

VALUATION AND RECOMMENDATION

The 3QFY18 result of CIMB Thai have not cause us to change our view that the situation in Thailand is improving with provisions continue to be on a downtrend. We were also encouraged to see income grew robustly despite NIM compression. As such, we believe that the Group's business in Thailand continues to be sound, and it seems that Group is expanding there. We do not believe that CIMB Thai will be a drag to the Group's earnings. 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)	14.7	12.1	9.9	10.2
Net Dividend (sen)	20	25	26	26
Net Dividend Yield (%)	3.3	4.2	4.3	4.3
Book value per share (RM)	5.11	5.23	5.54	5.88
PBV (x)	1.2	1.2	1.1	1.0
ROE (%)	8.3	9.6	11.3	10.3

DAILY PRICE CHART

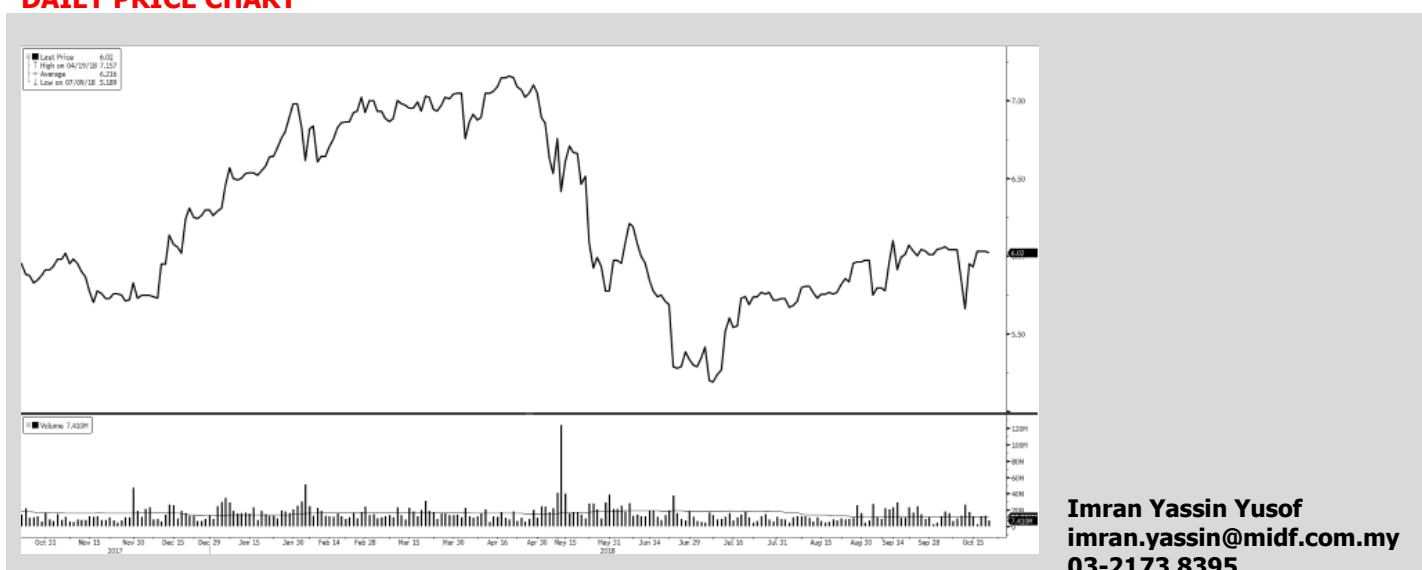


Table: Comparison of quarterly and cumulative results

FYE Dec (THB m)	Quarterly results					Cumulative Result		
	3QFY18	2QFY18	3QFY17	Yoy (+/- %)	Qoq (+/- %)	9MFY18	9MFY17	Yoy (+/- %)
NII	2,707	2,640	2,627	3.0%	2.6%	7,943	7,604	4.4%
NOII	583	773	828	-29.6%	-24.7%	2,143	2,234	-4.1%
Net income	3,290	3,413	3,455	-4.8%	-3.6%	10,085	9,839	2.5%
OPEX	(2,144)	(1,941)	(2,013)	6.5%	10.5%	(6,018)	(5,432)	10.8%
PPOP	1,146	1,472	1,442	-20.6%	-22.2%	4,067	4,407	-7.7%
Write back/(Provision) for loan losses	(931)	(1,224)	(1,335)	-30.2%	-23.9%	(3,330)	(3,711)	-10.3%
Pre-tax profit	214	249	107	99.4%	-13.8%	737	696	5.9%
Net Profit	177	191	77	131.6%	-7.3%	537.4	554.4	-3.1%
EPS (THB)	0.006	0.006	0.003	115.94%	-7.31%	0.018	0.020	-9.6%
Ratios (%)	4QFY17	3QFY17	4QFY16	+ / - pts		9MFY18	9MFY17	+ / - pts
CI	65.2	56.9	58.3	6.9	8.3	59.7	55.2	4.5
Modified LD	95.0	96.8	99.4	-4.4	-1.8	95	99.4	(4.4)

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.