

CIMB Group Holdings Bhd

Turnaround in Thailand, partnership is "a go" with Galaxy

Maintain BUY

Unchanged Target Price (TP): RM7.17

INVESTMENT HIGHLIGHTS

- **As expected, earnings recovered**
- **Lower provisions was the main factor**
- **Better NIM also played a role, resulting in NII expansion but was moderated by lower NOII and higher OPEX**
- **Additional update on the Group; partly completed proposed partnership with China Galaxy for its stock broking business**
- **No change to our forecast for now**
- **Prospect for the Group remains good. Maintain BUY with TP unchanged at RM7.17, based on pegging the stock to 1.3x to FY18 BVPS**

Back in black as expected. As we had expected, CIMB Thai finished the year being in black. It registered a FY17 net profit of THB384.9m as compared to loss of -THB629.5m in FY16. Main reason for the improvement was lower provisions of -19.5%yoy to THB5,053m.

Asset quality improved. The situation in Thailand continued to improve slightly as NPL ratio fell -1.3ppts yoy to 4.8% as at FY17. The lower NPL ratio was mainly due to the sale of NPLs in 2017, more efficient risk management policies, improved asset quality management and loan collection processes. Provisions also continued its downtrend as it fell -53.7%yoy to THB1,342m in 4QFY17.

Better margins led to higher NII. NIM came in +12bps yoy higher to 3.89% in FY17. As a result, NII grew +3.4%yoy to THB10.20b. The NIM improvement was due to more efficient cost of fund management as interest expense fell -9.4%yoy to THB4.36b, while interest income was flattish at -0.8%yoy to THB14.56b.

Weaker NOII moderated earnings growth... NOII fell -3.6%yoy to THB2.95b due to higher losses in financial instruments designated at fair value through profit or loss. This came in at -THB1.73b in FY17 from -THB810.4m in FY16. However, NOII was higher on a year-on-year basis in 4QFY17, showing that it recovered in 2HFY17.

...as did higher cost. OPEX was +2.6%yoy higher to THB7.61b in FY17. This was mainly due to higher staff expenses which grew +5.5%yoy to THB4.07b. We understand that there were one-off expenses during the year that was related to business rationalisation.

RETURN STATS

Price (18 January 2018)	RM6.80
Target Price	RM7.17
Expected Share Price Return	+5.4%
Expected Dividend Yield	+5.1%
Expected Total Return	+10.5%

STOCK INFO

KLCI	1,821.60
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	9,225.5
Market cap. (RM'm)	62,733.7
Price over NA	1.3x
52-wk price Range	RM4.74 – RM7.08
Beta (against KLCI)	1.48
3-mth Avg Daily Vol	14.15m
3-mth Avg Daily Value	RM89.39m
Major Shareholders	
Khazanah	27.27%
EPF	14.37%
KWAP	6.15%

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


Loans growth decent but deposits declined. Gross loans grew +3.2%yoy to THB213b while deposits fell -1.5%yoy to THB220.1b. We believe that this could be due to some portfolio rebalancing and may have resulted in the improved NIM.

Additional announcement from the Group; partnership with China Galaxy is partly finalised. The Group also announced that it had partly completed the strategic partnership with China Galaxy via the divestment of its 50% stake in CIMB Securities International Pte Ltd, which is its ex-Malaysia broking business. The consideration is approximately RM500m. As we have previously stated in our report on 7 June 2017, we are positive on the move. We believe it is a win-win move for both parties as it will give an opportunity for the Group to have a toehold in the Chinese market, including capitalising on China-outbound M&As, China-ASEAN cross-border investments and infrastructure funding. China Galaxy will also mutually benefit from the Group's presence in ASEAN. We believe that the Group have found a solid partner in China. The proposed partnership in Malaysia is pending regulatory process including the Group's acquisition of Jupiter Securities. All-in, we understand that amongst the impact will be a reduction in the Group's CI ratio by circa 100bps.

FORECAST

We make no changes to our forecast pending 4QFY17 result for the Group. Also, we have already taken into account the potential improvement in CI ratio in FY18 coming from the proposed strategic partnership with China Galaxy.

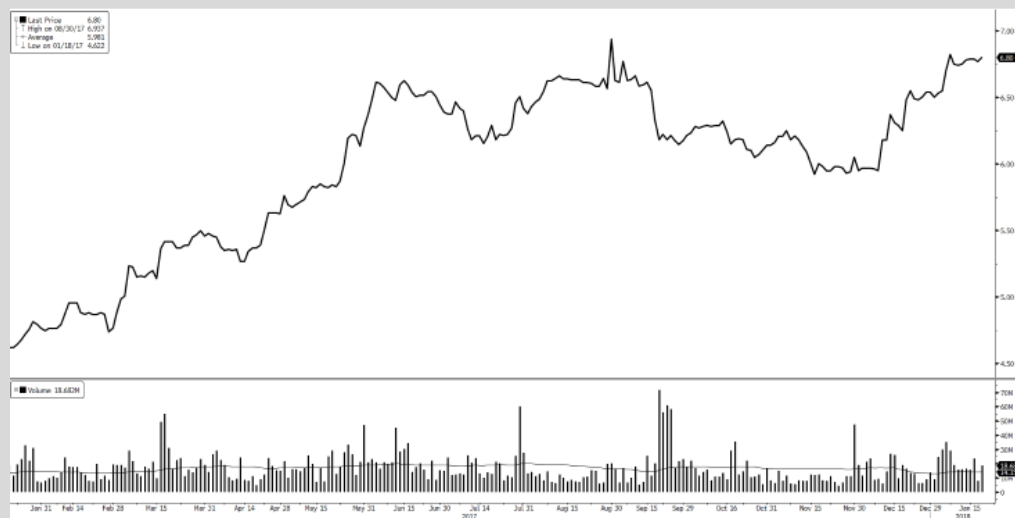
VALUATION AND RECOMMENDATION

We believe the situation in Thailand continues to improve and the Group will be on a firmer footing to improve its business in Thailand further in FY18. We expect that CIMB Thai will continue to be a positive contributor to the Group's earnings this year. In addition, we are positive on its strategic partnership with China Galaxy and believe that it will bring clear benefit for the Group. Taking everything in consideration, we believe that prospect for the Group remains solid. As such, we maintain our **BUY** recommendation with unchanged TP of RM7.17 based on pegging its FY18 BVPS to PBV multiple of 1.3x. 

INVESTMENT STATISTICS OF CIMB GROUP

FYE Dec	FY15	FY16	FY17F	FY18F
Net interest income (RM'm)	9,337	9,826	10,153	10,869
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	18,671
Pretax profit (RM'm)	3,914	4,884	5,438	7,312
Net profit	2,850	3,564	4,232	5,690
Core Net profit (RM'm)	3,411	3,564	4,232	4,942
Core EPS (sen)	40.2	41.0	47.0	53.0
PER (x)	16.9	16.6	14.3	12.8
Net Dividend (sen)	14	20	26	35
Net Dividend Yield (%)	2.1	2.9	3.9	5.1
Book value per share (RM)	4.81	5.11	5.22	5.51
PBV (x)	1.4	1.3	1.3	1.2
ROE (%)	8.6	8.3	9.2	11.3

DAILY PRICE CHART



Imran Yassin Yusof
 imran.yassin@midf.com.my
 03-2173 8395

Table 1: Comparison of quarterly results

FYE Dec (THB m)	Quarterly results					Comments
	4QFY17	3QFY17	4QFY16	Yoy (+/- %)	Qoq (+/- %)	
NII	2,598	2,627	2,528	2.8%	-1.1%	Better NIM from improved funding cost management. Interest expense fell -10.3%yoy to THB1,038m.
NOII	718	828	707	1.6%	-13.3%	Gains on trading and forex transactions vs. losses in 4QFY16.
Net income	3,316	3,455	3,235	2.5%	-4.0%	
OPEX	(2,181)	(2,013)	(2,112)	3.2%	8.3%	Higher employees expenses which grew +18.3%yoy to THB1,059m. This cost could possibly be due to one-off expenses for business rationalisation.
PPOP	1,135	1,442	1,123	1.1%	-21.3%	Due to higher OPEX.
Write back/(Provision) for loan losses	(1,342)	(1,335)	(2,901)	-53.7%	0.5%	Improvement in NPL ratio.
Pre-tax profit	(207)	107	(1,778)	>100%	<-100%	
Net Profit	(169)	77	(1,428)	>100%	<-100%	
EPS (THB)	(0.006)	0.003	(0.056)	>100%	<-100%	
Ratios (%)	4QFY17	3QFY17	4QFY16	+ / - pts		
CI	65.8	58.3	65.3	0.5	7.5	
Modified LD	96.8	99.4	92.4	4.4	-2.6	

Source: Company

Table 2: Comparison of cumulative results and ratios

FYE Dec (THB m)	FY17	FY16	Yoy (+/- %)	Comments
NII	10,202	9,866	3.4%	Improved NIM from better cost of fund. Interest expense fell -9.4%yoy to THB4,355m.
NOII	2,952	3,062	-3.6%	Higher losses on financial instruments.
Net income	13,155	12,928	1.8%	
OPEX	(7,613)	(7,424)	2.6%	Higher staff expenses in 4QFY17. FY17 staff expenses increased +5.5%yoy to THB4,068m, possibly due to one-off expenses relating to business rationalisation.
PPOP	5,542	5,505	0.7%	
Write back/(Provision) for loan losses	(5,053)	(6,279)	-19.5%	Lower provisions on improved credit quality.
Pre-tax profit	489	(775)	>100%	
Net Profit	385	(630)	>100%	
EPS (sen)	0.014	(0.025)	>100%	
			+ / - ppts	
NIM	3.89	3.77	0.12	
CI	57.9	57.4	0.5	
Modified LD	96.8	92.4	4.4	
Gross NPL ratio	4.8	6.1	-1.3	

Source: Company

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.