

02 February 2018 | Visit Note

CIMB Group Holdings Bhd

Divestments in preparation for digital investment

INVESTMENT HIGHLIGHTS

- Met the Group's CFO for an update
- Slightly optimistic on loans growth in FY18, driven by pick up in corporate loans
- NIM compression expected to remain with recent OPR hike having only minimal impact
- Spate of divestment recently due to plans beyond FY18 which involves strengthening digital capability
- No change to forecast for now
- Optimism remains. Maintain BUY with unchanged TP of RM7.17 (under review), based on 1.3x PBV on FY18 BVPS

Key take aways. We met with the Group's CFO recently for an update of the latest development. Below are some of the key take aways that we gathered:

- Slightly more optimistic on loans growth in FY18 driven by corporate loans.
- NIM compression is still expected at Group level despite OPR hike.
- Divestment is partly to raise fund for investment in digital strategy.
- No undue concern for asset quality.

Corporate loans likely to drive loans growth. Management indicated that corporate loans pipeline that was slated in 4QFY17 is starting to materialise in 1QFY18. The corporate loans growth also seem to be broad based in terms of type and sector. This is expected to lead the loans growth in FY18. Meanwhile, retail loans growth rate in FY18 is expected to be at similar level or slightly less than the growth registered in FY17. Thus, we can expect a reversal in trend from FY17 where retail segment were the main loans growth driver. However, we do not discount the possibility of mortgages in Malaysia to continue to grow robustly given continuing demand for affordable residential property.

Maintain BUY

Unchanged Target Price (TP): RM7.17 (under review)

RETURN STATS

Price (30 January 2018)	RM7.25
Target Price	RM7.17
Expected Share Price Return	-1.1%
Expected Dividend Yield	+4.8%
Expected Total Return	+3.7%*

* We reviewing our TP pending the release of the Group's FY17 result. Please see below.

STOCK INFO

KLCI	1,868.58
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)	1.57
3-mth Avg Daily Vol	14.69m
3-mth Avg Daily Value	RM94.54m
Major Shareholders	
Khazanah	27.27%
EPF	14.17%
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

Loans growth expected to improve in Thailand and Indonesia. With the rate of loans decline slowing for the SME sector, CIMB Thai is expected to register better loans growth in FY18. Similarly, Indonesia is also expected to post better loans growth especially for the corporate segment. This is due to participation in funding for infrastructure projects there.

NM compression expected to remain at Group level. While the recent +25bps OPR hike in Malaysia may give a temporary boost to NIM, management is expecting NIM compression to persist at Group level. The NIM compression will mostly come from Indonesia. Besides, we understand that the OPR hike may have only a minimal impact to offset the structural NIM pressure in Malaysia. However, we believe that any NIM compression will be moderated by the Group's solid management of its cost of funds, as we have observed in FY17. Therefore, we expect that NIM compression will not be detrimental to earnings in FY18.

Asset quality expected to remain stable. Asset quality in Malaysia is expected to continue to be good, with commercial property the only area that might be susceptible to some weakness. Similarly, with Indonesia and Thailand, it had rebalanced its portfolio and have made the necessary provisions in vulnerable segments early.

Recent divestment may be due to the need for investment in digital. As stated previously, we view the divestments positively and as more of a realignment in strategic direction where the Group could be more focus on its core business. Moreover, the divestments did not result in the Group foregoing those entities entirely. It will still be able to have product cross selling capability. We understand that the recent spate in divestment is for the Group to look beyond FY18. The Group have recognized the need to invest in order to strengthen its digital capacity. The divestments may provide with additional funds needed for those investments.

Four drivers of digital transformation. While still preliminary, we understand that there will be four main prong for the Group's digital transformation. These are:


1. Driving topline growth through more compelling digital offering, which include customer acquisition, product marketing amongst others.
2. Driving efficiency through digitalisation such as program lending, digital documentation etc. We echo management expectations that this will have the fastest result as any efficiency gain will lead to cost reduction.
3. Forming partnership and joint ventures such as the partnership between Touch N Go and Alipay.
4. Digital bank platform which we understand will start in Vietnam.

More of a medium to long term strategy. We opine that the Group's digital strategy will not have an immediate to short term impact with the exception of increase OPEX due to the investment required. We believe that any benefit will be seen only in the medium term, i.e. 3 to 4 year period.

FORECAST

Pending its FY17 earnings result expected later this month, we are maintaining our forecast for now.

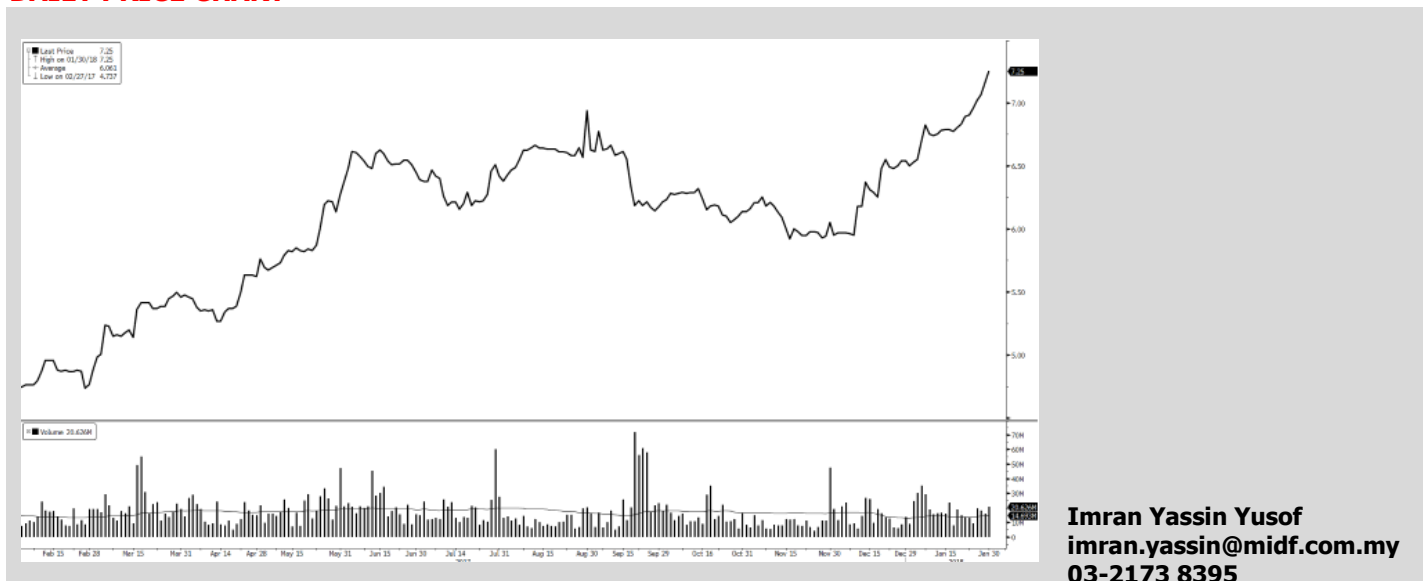
VALUATION AND RECOMMENDATION

We continue to be optimistic of the Group's prospects especially as we do not foresee any undue stress to its earnings. We like the fact that the Group are sanguine of its FY18 loans growth prospect especially in Thailand and Indonesia. Meanwhile, NIM compression may continue to be subdued. We expect performance in Malaysia to continue to be solid. As such, we maintain our **BUY** call with unchanged TP of RM7.17, based on pegging its FY18 BVPS to 1.3x PBV. However, we are reviewing our TP due to the recent share price spike pending its earnings result release due to the possibility of an upwards revision to our TP. 

INVESTMENT STATISTICS OF CIMB GROUP

FYE Dec	FY15	FY16	FY17F	FY18F
Net interest income (RM'm)	9,337	9,826	10,153	10,981
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	18,783
Pretax profit (RM'm)	3,914	4,884	5,438	7,366
Net profit	2,850	3,564	4,232	5,732
Core Net profit (RM'm)	3,411	3,564	4,232	4,984
Core EPS (sen)	40.2	41	47	53.2
PER (x)	18.0	17.7	15.3	13.6
Net Dividend (sen)	14	20	26	35
Net Dividend Yield (%)	1.9	2.8	3.6	4.8
Book value per share (sen)	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



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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.