

12 January 2018 | Corporate Update

CIMB Group Holdings Bhd

More of a realignment than a divestment

INVESTMENT HIGHLIGHTS

- **The Group will be divesting part of its stake in CIMB-Principal Asset Management and CIMB-Principal Islamic Asset Management to its partner, Principal Financial Group.**
- **Consideration to be received is RM470.3m, while the Group will recognize a gain of RM950m and improvement in CET1 ratio by +18bps.**
- **Not too surprising given recent trend.**
- **No negative impact to earnings given its smaller contribution.**
- **Maintaining FY18 core net profit forecast by tweaking the non-normalised earnings.**
- **Better loans growth and NIM to be driver for this year. Maintain BUY with adjusted TP of RM7.17 (from RM7.10), based on 1.3x PBV on FY18 BVPS.**

Announcement of a divestment. The Group announced yesterday that it is divesting its 20% stake in CIMB-Principal Asset Management Bhd (CPAM) and 10% stake in CIMB-Principal Islamic Asset Management Sdn Bhd (CPIAM) to companies related to its partner in CPAM and CPIAM, Principal Financial Group. This will result in a realignment of ownership in CPAM and CPIAM whereby Principal Financial Group will increase its ownership in both entity to 60% respectively while the Group will retain a 40% stake. As such, CPAM and CPIAM will cease to be a subsidiary of the Group. The transaction is expected to be completed by 2QFY18.

The Group does not expect material impact. For the divestment of its stakes, the Group will receive a total consideration of RM470.3m. The Group does not expect the divestment have any material effect on its consolidated gearing and net assets for FY18. The divestment will also not have any effect on the Group's share capital and substantial holdings of its shareholders.

One-off impact to earnings and will impact book value slightly. The Group are expecting to recognize a gain of RM950m for FY18. We estimate that this will increase our FY18 earnings projection by +15.1%. However, since this is a one-off gain, there will be no change to our core net profit forecast. We also estimate that the divestment will add another 5 sen to our BVPS forecast which would bring the BVPS FY18 to RM5.51.

Maintain BUY

**Adjusted Target Price (TP): RM7.17
(from RM7.10)**

RETURN STATS

Price (11 January 2018)	RM6.75
Target Price	RM7.17
Expected Share Price Return	+6.2%
Expected Dividend Yield	+5.2%
Expected Total Return	+11.4%

STOCK INFO

KLCI	1,816.88
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	9,225.5
Market cap. (RM'm)	62,272.4
Price over NA	1.3x
52-wk price Range	RM4.71 – RM7.08
Beta (against KLCI)	1.47
3-mth Avg Daily Vol	14.45m
3-mth Avg Daily Value	RM90.4m
Major Shareholders	
Khazanah	27.27%
EPF	14.40%
KWAP	6.16%

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

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Increase in CET1 ratio will help with MFRS 9. The Group are also expecting an improvement of +18bps to its CET1 ratio, which we estimate would be circa 12% after the divestment. While we believe that the Group is sufficiently buffered for the impact of MFRS 9, we opine that this divestment will have provide additional cushion. Previously, management guided that there will be a slight drop in CET1 on Day One of implementation of approx. -50bps but will subsequently recover, partly via utilising the regulatory reserve.

Focusing on core business. We opine that the latest divestment is part of the Group's strategy of focusing on its core banking business, given the recent trend such as the partnership with China Galaxy. We believe that the Group's earnings going forward will not be significantly impacted by the divestment. This is due to the fact that Group Asset Management and Investment contributes circa 2.0% to 3.0% of Group's PBT.

FORECAST

We are tweaking upwards our FY18 net profit forecast by +15.1% to take into account the potential gains but we are maintaining our FY18 core net profit because of the one-off nature of the transaction.

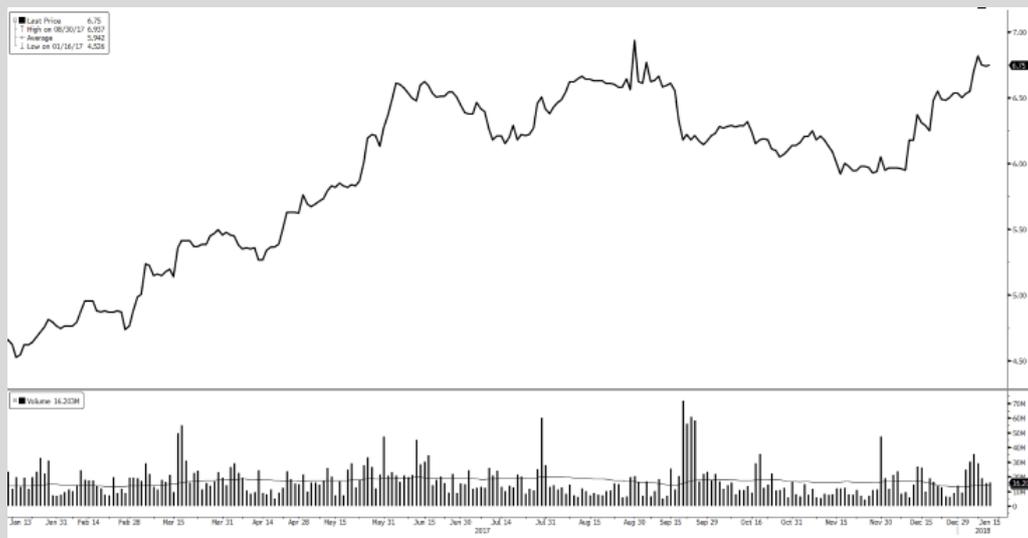
VALUATION AND RECOMMENDATION

Overall, we do not foresee any negative impact for this divestment. We believe that it is part of the Group's overall strategy to focus on its core banking business as highlighted by previous other transactions. We opine that robust loans growth and stable margins will be the Group's growth drivers for this year. As such, we maintain our **BUY** call. We are adjusting our TP to RM7.17 (from RM7.10) to take into account slightly higher BVPS due to this transaction. Our TP is based on pegging its FY18 BVPS to 1.3x PBV.

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)	16.8	16.5	14.2	12.7
Net Dividend (sen)	14	20	26	35
Net Dividend Yield (%)	2.1	3.0	3.9	5.2
Book value per share (sen)	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



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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.