

04 May 2018 | Visit Note

## CIMB Group Holdings Bhd

*On track and looking beyond T18*

**Maintain BUY**

**Unchanged Target Price (TP): RM7.80**

### INVESTMENT HIGHLIGHTS

- **The management is comfortable with current loans growth run rate.**
- **It is competing via services and turnaround time and not through pricing. This will ensure that NIM compression is kept at a minimum.**
- **Looking beyond T18 initiatives.**
- **Reviewing and strategizing its overseas franchise with condition that it has to be value accretive.**
- **Need to make investment to enhance digital offering. Partly funded by divestments.**
- **No change to forecast for now.**
- **Optimism remains. Maintain BUY with unchanged TP of RM7.80, based on 1.4x PBV on FY18 BVPS.**

**Key take aways.** We met with the Group's CFO recently for an update of the latest development. Below are a summary of the key take aways from our meeting:

- Competing for loans acquisition through services and faster turnaround time (e.g. newly launched "instant mortgage") and not through pricing.
- Reviewing and strategizing its overseas franchise with the condition that it must be value accretive to the Group.
- Investment will be made to enhance its digital proposition. Divestment is partly to raise fund for investment in digital strategy.
- Looking at next phase of growth, beyond T18 initiatives.

**Seems to be on-track in terms of loans growth target.** At current juncture, the Group are comfortable with the loans growth run rate. This is especially the case in Malaysia, where management believe it will be able to achieve the 6-7% loans growth target. We echo this view given the demand for affordable housing. Furthermore, we understand that the loans growth are skewing towards mortgages. The challenge will be in Indonesia and Thailand with a decline in its auto loans book and SME loans respectively. Nevertheless, we understand that retail loans in these two markets appear to be stable.

### RETURN STATS

Price (3 May 2018)	RM7.00
Target Price	RM7.80
Expected Share Price Return	+11.4%
Expected Dividend Yield	+4.4%
<b>Expected Total Return</b>	<b>+15.8%</b>

### STOCK INFO

KLCI	1,851.80
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	9,365.8
Market cap. (RM'm)	65,560.6
Price over NA	1.4x
52-wk price Range	RM5.71 – RM7.39
Beta (against KLCI)	1.58
3-mth Avg Daily Vol	14.81m
3-mth Avg Daily Value	RM106.01m
Major Shareholders	
Khazanah	26.86%
EPF	13.22%
KWAP	6.50%

### 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

**Compete for loans through services.** We are pleased that the management indicated that it competes for loan acquisitions through its service offering and not through pricing. This include easier loans application and faster turnaround in approval. An example is the recently lauched "instant mortgage" where the Group offer 1-Minute Home Financing InstaApproval scheme in Malaysia. We believe that this will ensure any pressure on NIM will be moderate.

**Additionally, corporate loans will likely drive loans growth.** Recall, in our previous meeting, the management indicated that corporate loans is expected to lead the loans growth in FY18, with the loans pipeline looking healthy. Conversely, retail loans growth rate in FY18 is expected to be at similar level or slightly less than the growth registered in FY17. However, we do not discount the possibility of mortgages in Malaysia to continue to grow robustly given continuing demand for affordable residential property.

**Preparing from beyond T18 initiatives.** The Group is preparing for the next phase of its growth as this year will mark the end of its T18 initiatives. The T18 initiatives can be construed as a phase where the Group consolidate its position in terms of rationalising its cost base and assets. We believe that this had provide a solid foundation for the Group to launch to the next phase. Although the management are still developing its strategy, we can assume that it involves enhancing its digital offerings, using technology to streamline processes and amalgamating its network, especially in overseas market, to put forth a value proposition for the banking franchise as a whole.

**Overseas market must be value accretive.** We understand that the Group's Malaysian operation will serve as the base for that will provide earnings sustainability. On the other hand, moving forward, the management is expecting that its overseas operations will have to be value accretive to the Group. As such, it will be reviewing and strategizing on the next steps needed. This will not involve singular approach but will be based on the dynamics of each markets. For example, its auto loans book in Indonesia where the management indicated that it is comfortable with the contraction given that it gives the Group better control in terms of asset quality.

**Investment need to be made in the digital space.** The management indicated that the Group will need to make investments in order to not only enhance its digital offerings, but also take advantage of new technology that will streamline its processes. As such, CI ratio is expected to plateau around the 50% level in the short-to-medium term. However, we believe that this is necessary as the Group will need to keep up with its peers. In addition, we expect the investments in technology will result in cost savings such as improvement of its branch network, lower personnel cost and lower customer acquisition cost. Following from this, it is expected that CI ratio to trend downwards towards the mid-40% level. As stated previously, we understand that the recent spate in divestment is to provide the Group with additional funds needed for the investments.

**Benefit will likely be in the medium term.** We opine that the Group's digital strategy will not have a short term impact with the exception of increase OPEX due to the investment required. However, as stated this will be partly funded through its recent divestments. Without any further details, we can only assume that any benefit will be seen only in the medium term, i.e. 3 to 4 year period.

## **FORECAST**

Pending its 1QFY18 earnings result expected later this month, we are maintaining our forecast for now.

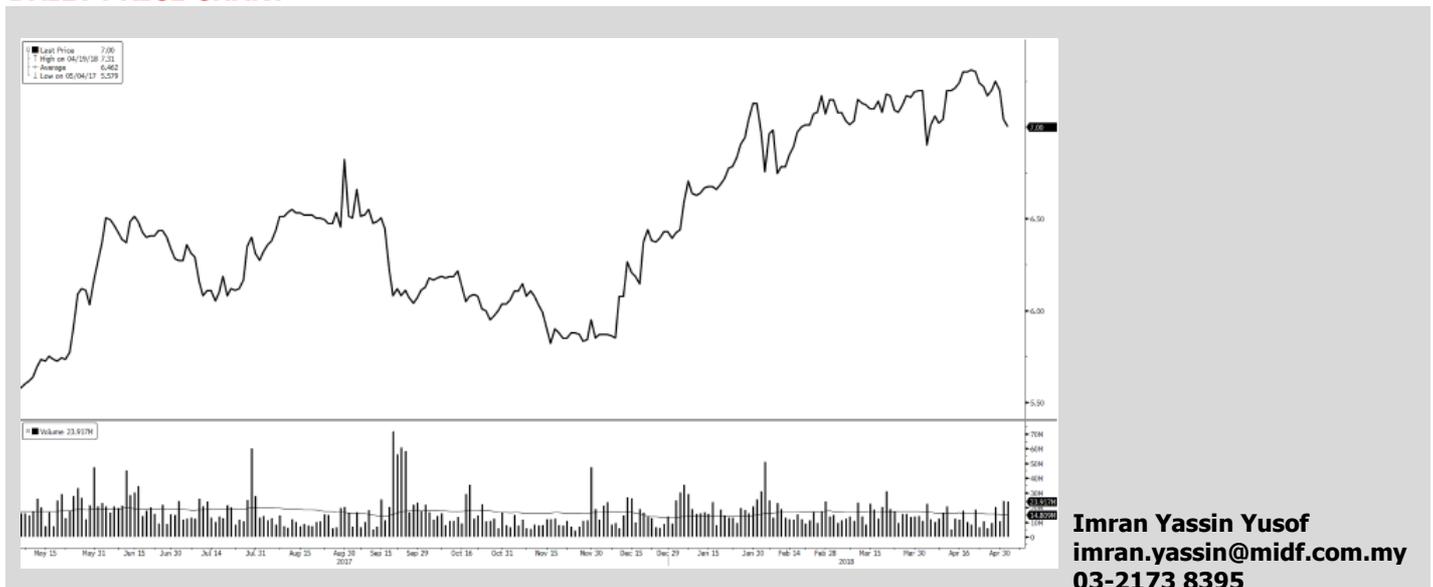
## **VALUATION AND RECOMMENDATION**

We continue to be optimistic of the Group's prospects as we believe that the Group will able to deliver on its earnings potential this year. Furthermore, we expect performance in Malaysia to continue to be solid. Although, we do not expect any significant short term impact from its planned digital strategy besides higher OPEX, we opine that it will provide the Group with a platform for its next phase of growth. Hence, we maintain our **BUY** call with unchanged TP of RM7.80, based on pegging its FY18 BVPS to 1.4x PBV. 

## 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)	17.1	14.1	11.6	12.0
Net Dividend (sen)	20	25	31	30
Net Dividend Yield (%)	2.9	3.6	4.4	4.3
Book value per share (sen)	5.11	5.23	5.50	5.80
PBV (x)	1.4	1.3	1.3	1.2
ROE (%)	8.3	9.6	11.3	10.3

## 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.