

10 Feb 2015 | Corporate Update

## CIMB Group Holdings Bhd

**Maintain NEUTRAL**

*Committed on initiatives to lower its CI ratio*

**Unchanged Target Price (TP): RM6.20**

### INVESTMENT HIGHLIGHTS

- The Group announced the closure of its offices in Sydney and Melbourne. This is in line with its plan to cut its IB operating expenses by 30% in 2015 based on its strategies unveiled under T18.
- We expect the move to incur cost in the short term before cost-savings can be extracted in the longer run.
- No change to our forecast.
- Maintain NEUTRAL with unchanged TP of RM6.20 pegged to a forward PB multiple of 1.3x.

Group announced the closure of its offices in Sydney and Melbourne. Recently, CIMB has rolled out key initiatives under its target (T18) to be achieved over the next three financial years. Broadly, by 2018, the Group aims to achieve ROE of more than 15%, CET1 of more than 11.0%, cost-to-income ratio of less than 50%. In addition, the Group is targeting for Consumer Banking to contribute approximately 60% of its income by 2018.

The Group highlighted that it will reassess its IB position in Asia Pacific and will work towards reducing its IB and equities cost. It plans to cut IB operating expenses by 30% in 2015.

We believe that the Group's IB cost has been high all this due to its acquisition of RBS assets which have yet to make meaningful contribution to Group earnings. In line with the reduction of its IB expenses, the Group has announced the closure of its offices in Sydney and Melbourne after conducting a strategic review.

**103 Australian staff will be affected.** We understand some of the staff will be made redundant while others will be offered redeployment opportunities and outplacement support. This is likely to incur cost to the Group in the short term before cost savings can be realised in the longer run.

**Existing strategic alliance with Morgans Financials Limited will continue.** We understand that the Group will continue to maintain its strategic alliance formed earlier with Morgans Financials Limited for provision of research reports and cooperation in corporate advisory and capital market works for clients intending to have access to the Australian market.

RETURN STATS	
Price (9 Feb 2015)	RM5.70
Target Price	RM6.20
Expected Share Price Return	+8.8%
Expected Dividend Yield	+3.5%
Expected Total Return	+12.3%

STOCK INFO	
KLCI	1,811.58
Bursa / Bloomberg	1023 / CIMB MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	8,423.70
Par Value (RM)	1.0
Market cap. (RM'm)	48,015.40
Price over NA	1.3x
52-wk price Range	RM5.05-RM7.56
Beta (against KLCI)	1.45
3-mth Avg Daily Vol	10.36m
3-mth Avg Daily Value	RM58.71m
Major Shareholders	
Khazanah	29.31%
EPF	15.24%

#### Some banking abbreviations used in this report:

CA = Collective Impairment Allowance  
 CI = Cost-Income Ratio  
 CET1 = Common Equity Tier 1  
 GIL = Gross Impaired Loan  
 LD = Loan-Deposit  
 NII = Net Interest Income  
 NOII = Non-interest income  
 NIM = Net Interest margin  
 COF = Cost of Funds  
 LLC = Loan Loss Coverage

## INVESTMENT STATISTICS

FYE Dec	FY12	FY13	FY14F	FY15F
Net interest income (RM'm)	7,396	7,954	8,486	8,849
Islamic banking income (RM'm)	1,689	1,593	1,782	1,814
Non-interest income (RM'm)	4,407	4,600	3,861	4,064
Total income (RM'm)	13,495	14,672	14,129	14,728
Pretax profit (RM'm)	5,638	5,849	5,033	5,387
Net profit (RM'm)	4,345	4,540	3,867	4,136
EPS (sen)	58.4	60.0	46.0*	50.0
PER (x)	9.8	9.5	12.4	11.4
Net Dividend (sen)	23.4	23.8	19.0	20.0
Net Dividend Yield (%)	4.1	4.2	3.3	3.5
Book value per share (sen)	3.81	3.92	4.46	4.80
PBV (x)	1.5	1.5	1.3	1.2
ROE (%)	16.0	15.5	11.4	10.7

\*Lower than FY13 as we have taken into account a higher number of shares from its DRP as well as from share private placement exercise in Jan'14

Forecast by MIDFR

## FORECAST

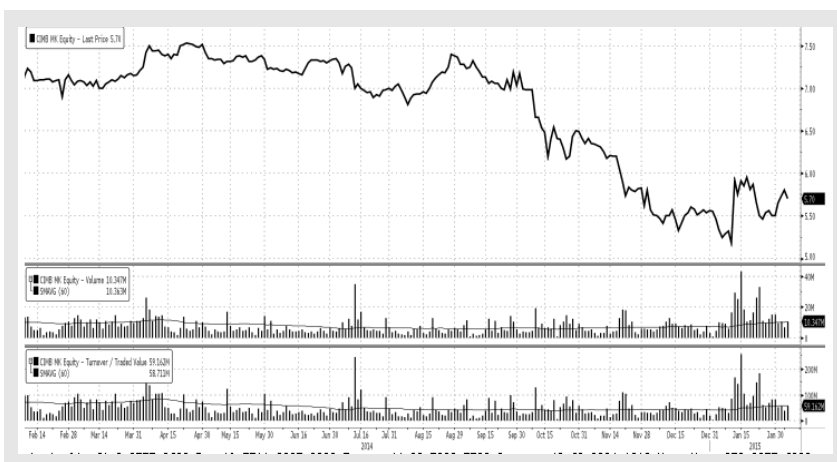
We make no changes to our forecast.

## VALUATION AND RECOMMENDATION

The Group's targets under T18 remain general, and the specifics on how the broad targets will be achieved have not been revealed. We expect the Group to initially incur costs in the short term before any savings can be realized over the longer term. In the near term, we remain less sanguine on the operations of CIMB Niaga as well as the weak capital market activities. We maintain NEUTRAL with an unchanged TP of RM6.20 pegging the stock to a forward PE multiple of 1.3x, implying a PER of 12.4x.



## DAILY PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.