

PP14767/09/2012(030761)

Market Access

CIMB Group Holdings Berhad

“Recovery Progressing Well”

Results Review

- Actual vs. expectations.** CIMB Group Holdings Bhd (CIMB) made good progress to its recovery after delivering earnings of RM830 million (+41% y-o-y, -1% q-o-q) in 3M16 results. The earnings posted was spot on with ours and consensus, accounting 24.5% and 21% of ours and consensus full year net profit forecast. The surge in earnings was premised on 1) stronger Islamic banking income of RM438 million (+19% y-o-y) 2) leaner operating expenses of RM2.1 billion (-9% y-o-y) and 3) lower loan loss provision of RM465 million (-13% y-o-y). Nevertheless, CIMB’s Malaysia operation endured difficult environments after posting weaker PBT by 21.8% y-o-y.
- Dividend.** No dividend was declared during the quarter.
- Topline vs. Bottom line.** 3M16 net income grew modestly to RM3.7 billion (+1% y-o-y, -8% q-o-q), underpinned by 1) Islamic banking income of RM438 million (+19% y-o-y) and 2) net interest income of RM2.3 billion (+9% y-o-y). The stronger net income pushed pre-provision income to RM1.58 billion (+18% y-o-y), helped by declining provision levels in Indonesia and Thailand.
- Gross loans on still with-in guidance.** Reported loans growth was sufficient given the current environment. Loans growth was at 7.1% y-o-y, but excluding forex impact, loans growth touched 5.6% y-o-y. The weaker growth was evident across the board, especially in Indonesia where loans fell 1.7% y-o-y. Loan growth in Malaysia of 8.4%, kept pace with overall industry growth, but lending slowed in Singapore and Thailand.

Friday, May 27, 2016

HOLD (TP: RM4.75)

Current Price (RM)	RM4.37
New Fair Value (RM)	RM4.75
Previous Fair Value (RM)	RM4.75
Previous Recommend.	HOLD
Upside To Fair Value	8.7%
Dividend Yield (FY15)	2%

Stock Code	
Bloomberg	CIMB MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Finance
Shariah Compliance	No
Issued Shares (mn)	8,527.3
Market Cap (RM mn)	39,225.4
YTD Chg In Share Price	-3.74%
Beta (x)	1.1
52-week Hi/Lo (RM)	RM5.72 RM3.93
3M Average Volume (shrs)	11.30mn
Estimated Free Float	55%

Major Shareholders	
Khazanah	29.7%
EPF	17.1%
Mitsub. UFJ	4.6%

- **Further slowdown in deposits.** Reported growth was weaker at 6.8% y-o-y, but excluding forex impact, deposits grew 5% y-o-y due to slower pace of deposit growth in Indonesia, Singapore and Thailand and Malaysia. Growth in CASA remained strong with growth of 11.2% (+9.3% excluding forex impact). This was largely due to CASA growth in Malaysia, Indonesia and Singapore. Group's CASA ratio remains stable at 35.5% vs 34.1%, in 4Q15. Meanwhile, Group LD ratio improved to 90.5% vs. 92.9% in 4Q15.
- **NIM compressed within management guidance.** NIM compressed further by 4bps q-o-q to 2.62%. however, judging from stagnant interest expense, we suspect the let down was from its repricing activity which pointed towards decline in yield rather than higher funding costs. Management continues to guide for a 5-10bps compression in NIM this year
- **Cost under control.** Despite its MSS activities last year, we deem that its opex was still not up to the mark though it improved 9% y-o-y. The full benefit from its MSS last year is expected to be felt from Feb 2016 onwards due to 300-500 staff in Indonesia under the MSS scheme, that are still working on various projects. Costto-income ratio was still high at 57.4% vs. 58% in 4Q15. All in, management believes that its cost/income ratio target of <53%.
- **GIL ratio improved slightly.** GIL stagnant at 3% q-o-q with slower provisions. Group GIL ratio improved from 3.2% in 1Q15 to 3.0% in 1Q16 as some R&R loans classified earlier have made repayments. Credit charge-off for FY15 was 0.73% vs. 0.58% in FY14. On quarterly basis, credit charge-off was slower at 0.64 vs. 0.79 in 4Q16. LLC ratio improved to 84.8% vs. 84.7% in 4Q15.
- **Change to earnings forecast.** No change to our FY16 and FY17 forecast. At this juncture, FY16 and FY17 are expected to grow by 14% and 30% respectively underpinned by i) recovery in non-interest income in Malaysia ii) enormous growth in Singapore iii) stronger contribution from regional capital market
- **Outlook.** After completion of several washout programs in Fy15, we believe CIMB is focusing on growing its business, by expanding its loans book while at the same time lowering its loan loss and preserve its net interest margin while continue to focus on its cost rationalization which currently still hovering at high level. Domestically, there are no material signs of stress in any of its portfolios, be it retail, SME or corporates. In any case, the management remains watchful for signs of asset deterioration.
- **Valuation & recommendation.** We maintain our target price at RM4.75, and we reiterate our **HOLD** call on CIMB. Re-rating catalyst for the stock includes 1) more merger and acquisition activity 2) easing banking environment in Indonesia 3)securing more financing for ETP related projects

Results Review - CIMB Group Holdings Berhad

Table 1: Peers Comparison

Company	YE	Price (RM)	EPS (RM)		P/E (x)		P/B (X)		ROE (%)	Div Yield (%)	TP (RM)	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
AFG	Mac	4.06	0.3	0.4	11.7	11.2	1.3	1.3	10.8	2.0	4.00	Hold
AMMB	Mac	4.60	0.4	0.4	10.3	10.2	0.9	0.9	10.7	4.5	4.90	Hold
BIMB	Dec	3.85	0.4	0.4	10.3	9.8	1.7	1.5	17.2	3.3	4.28	Buy
CIMB	Dec	4.87	0.5	0.5	10.4	9.2	1.0	0.9	7.3	2.9	4.75	Hold
Maybank	Dec	9.03	0.7	0.7	12.9	12.3	1.4	1.3	11.9	6.4	9.10	Hold
RHB Cap	Dec	6.25	0.6	0.6	9.8	9.2	0.8	0.8	7.2	1.0	6.20	Hold
Public Bank	Dec	19.02	1.3	1.4	14.8	14.0	2.3	2.0	17.1	3.0	21.38	Buy
Affin	Dec	2.34	0.2	0.3	9.8	9.0	0.6	0.5	4.5	1.3	NR	NR
MBSB	Dec	1.36	0.1	0.1	11.0	11.2	0.8	0.8	5.4	7.5	NR	NR
STMB	Dec	4.06	0.2	0.2	20.1	17.8	5.0	NA	24.5	1.8	NR	NR
HL Bank	Jun	13.52	1.0	1.1	13.3	12.5	1.3	1.3	11.1	3.0	NR	NR
Average			0.6	0.7	12.8	11.4	1.5	1.1	11.1	3.9		

Source: Bloomberg, M&A Securities

Table 2: Results Analysis

YE: Dec (RM million)	1Q16	4Q15	1Q15	y-o-y	q-o-q	3M16	3M15	y-o-y
Revenue	3,725	4,042	3,680	1%	-8%	3,725	3,680	1%
Gross Interest income	4,688	4,780	4,278	10%	-2%	4,688	4,278	10%
Interest expense	(2,304)	(2,319)	(2,087)	10%	-1%	(2,304)	(2,087)	10%
Net interest income	2,384	2,461	2,191	9%	-3%	2,384	2,191	9%
Islamic banking income	438	417	367	19%	5%	438	367	19%
Other income	904	1,167	1,122	-19%	-23%	904	1,122	-19%
Net income	3,725	4,045	3,680	1%	-8%	3,725	3,680	1%
Operating expenses	(2,137)	(2,211)	(2,338)	-9%	-3%	(2,137)	(2,338)	-9%
Pre-provision income	1,588	1,833	1,342	18%	-13%	1,588	1,342	18%
Allowance loan loss	(465)	(579)	(536)	-13%	-20%	(465)	(536)	-13%
Allowance on impairment and other receivables	(51)	(29)	5	-1044%	79%	(51)	5	-1044%
Writeback of impairment	1	(1)	(2)	-140%	-222%	1	(2)	-140%
Operating profit	1,073	1,116	810	33%	-4%	1,073	810	33%
Associate	50	6	27	86%	720%	50	27	86%
Joint Ventures	0	13	(13)	-101%	-99%	0	(13)	-101%
Other gain/disposal	-	(3)	-	0	-100%	-	-	0
PBT	1,123	1,132	824	36%	-1%	1,123	824	36%
Taxation	(293)	(297)	(233)	26%	-1%	(293)	(233)	26%
PAT	830	836	590	41%	-1%	830	590	41%
EPS (sen)	9.5	9.7	6.9			9.5	6.9	
Dividend - sen	0	11	0			0	0	
Dividend payment (RMm)	0	938	0			0	0	
Dividend payout (%)	0	112%	0			0	0	
Revenue								

Source: Bursa Malaysia, M&A Securities

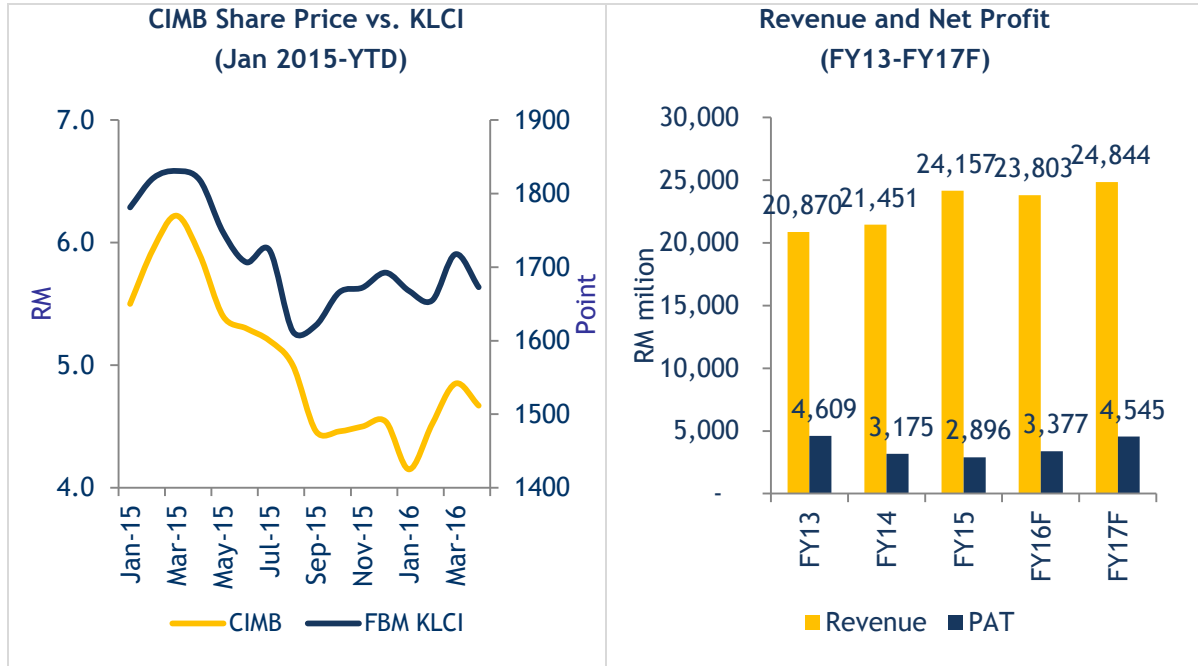
Table 3: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY7F
Gross Interest income	14,677	16,059	18,099	17,895	18,621
Interest expense	-6,723	-7,403	-8,762	-9,964	-9,879
Net interest income	7,954	8,656	9,337	7,930	8,742
Islamic banking income	1,593	1,461	1,569	1,616	1,665
Other income	4,600	3,931	4,489	4,292	4,558
Net income	14,147	14,048	15,395	13,838	14,965
Operating expenses	-8,458	-8,292	-9,249	-8,305	-8,339
Pre-provision income	5,689	5,756	6,146	5,533	6,626
Allowance loan loss	-661	-1,522	-2,169	-1,095	-659
Allowance on impairment and other receivables	-79	-189	-140	-50	-50
Writeback of impairment	1	9	-10	0	0
Recoveries from investment management	12	1	0	3	3
Operating profit	4,963	4,055	3,827	4,392	5,919
Associate	306	125	95	91	95
Joint Ventures	55	-2	-10	-10	5
Other gain/disposal	525	98	1	0	0
PBT	5,849	4,276	3,914	4,472	6,020
Taxation	-1,240	-1,102	-1,018	-1,096	-1,475
PAT	4,609	3,175	2,896	3,377	4,545
EPS (sen)	60	37.5	34.0	39.6	53.3
Dividend - sen	23.82	15	6.8	10.7	16.0
Dividend payment (RMm)	1429.2	562.5	230.7	423.3	852.2
Dividend payout (%)	31%	18%	20%	27%	30%
Retained Earnings	3,180	2,612	2,665	2,953	3,693
PER (x)	12.7	14.8	14.4	12.4	9.2
Gross Yield	3%	3%	1%	2%	3%
BV	3.92	4.44	2.7	2.9	3.2
P/BV	1.9	1.3	1.8	1.7	1.5

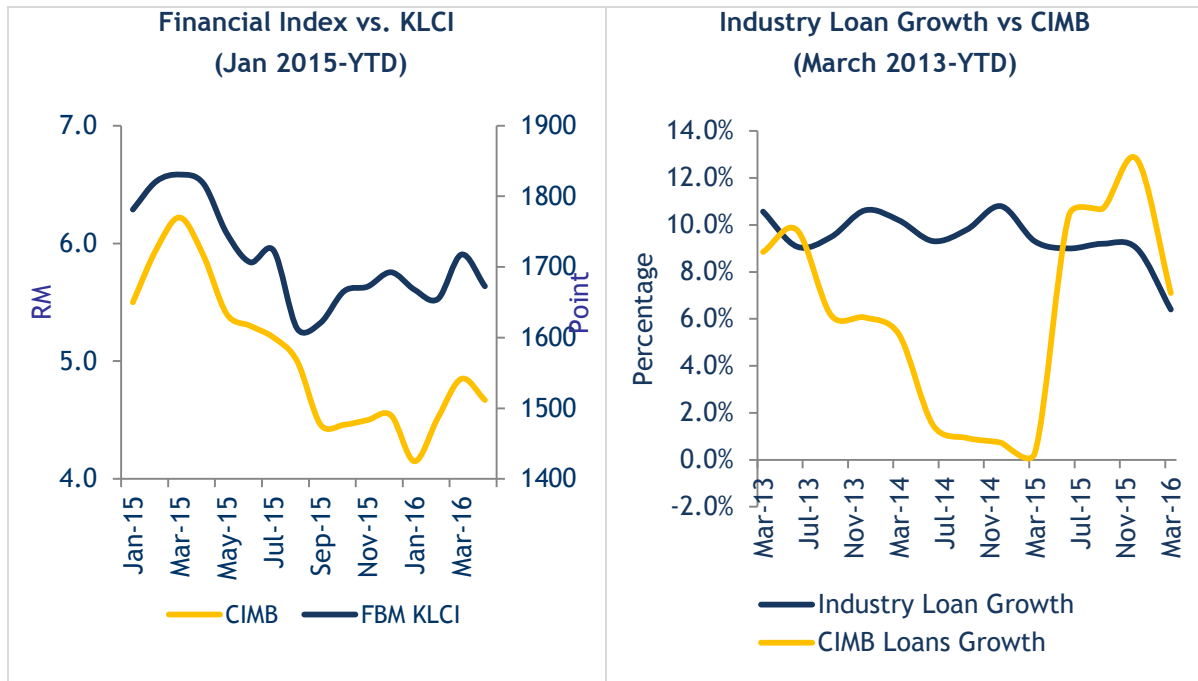
Source: Bursa Malaysia, M&A Securities

Table 4: Operational Ratio

YE: March (RM million)	FY14	FY15	FY16F	FY17F	FY18F
Margin					
NII Margin	62%	61%	57%	58%	65%
NOII Margin	28%	29%	31%	30%	25%
PPOP Margin	41%	40%	40%	44%	53%
PBT Margin	30%	25%	32%	40%	49%
PAT Margin	23%	19%	24%	30%	37%
Growth					
NII	9%	8%	-15%	10%	34%
NOII	-15%	14%	-4%	6%	1%
Operating expenses	-2%	12%	-10%	0%	0%
Pre-provision profit	1%	7%	-10%	20%	45%
Core net profit	-31%	-9%	17%	35%	46%
Gross loans	13%	13%	7%	10%	10%
Customer deposits	7%	13%	2%	7%	7%
Total assets	12%	11%	6%	5%	8%
Profitability					
Average Lending Yield	3.1%	3.1%	3.0%	3.0%	3.1%
Average Cost of funds	1.88%	1.76%	1.78%	1.78%	1.78%
NIM	2.80%	2.66%	2.62%	2.62%	2.62%
Cost/income	59.8%	59.0%	60.1%	60.0%	55.7%
Asset Quality					
Net NPL	1.8%	1.7%	1.7%	1.7%	1.7%
Gross NPL	3.1%	3.5%	3.5%	3.5%	3.5%
Return					
ROA	0.8%	0.6%	0.7%	0.9%	1.2%
ROE	8.3%	6.9%	7.5%	9.3%	12.3%



Source: Bloomberg, M&A Securities



M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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